MARKET REALISTICALLY REVALUES STOCKS ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

EBRUARY 16, 1957

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Cover photo — Bell Aircraft Model 47J: Four place utility Model 47J is the latest version of the famous Bell Model 47 series helicopter.

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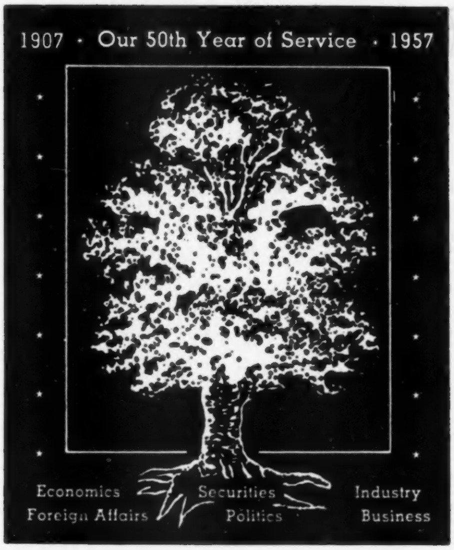
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

SURPRISED AND DELIGHTED . . . There is no greater reward than recognition of a job well done—and we say "thank you"—most gratefully to the many subscribers who have been complimenting us on what they are pleased to call a perfect score on our forecasting of the various trends during the difficult past six months.

Even in our wildest dreams we never expected to do that well—but the fact remains that we *did* accurately forecast the trend of securities—foresaw the business uncertainty, giving our reasons, when important men were highly bullish—and predicted in December the decline in commodity and raw material prices now taking place.

At the same time, our interpretation of the Middle East situation has been so highly accurate that we are being quoted widely, and every day brings new substantiation of the soundness of our reasoning.

The spontaneous commendation of our subscribers will be an inspiration to us in the crucial months ahead—when we will do our utmost to maintain the high level of our record in the various areas of service to our readers. Thank you again.

TECHNIQUE OF CONTROL OF THE MANY — BY THE FEW . . . The announcement in Miami that the AFL-CIO was launching a campaign to herd 13 million white collar workers into union ranks is interesting news indeed — for at $5 a month, which is becoming customary for union dues, the labor bosses are hoping to garner $65 million a month. Pretty rich pickings! Whether the office workers will fall for this deal is something else because these workers are doing extremely well as it is. They could not do better under union tutelage — and the record of strikes and loss of pay in so many affiliated sections of our economy is bound to make office workers shy away from the organizers ballyhoo with which they are already very familiar and have resisted in the past.

It has always shocked foreigners, coming to what they believe is a free country, to find such autocratic domination of the workers by unions. It seemed out of place under a liberal political system like ours, and yet it flourishes to such an extent in this country that unions have control of jobs — can keep a man out of work and blacklist him — and even have goons beat him up—and worse—unless he keeps carefully in line with the dictates of the labor union bosses. send the Bu

The union labor technique of today is based on the same formula used by the communists, by the Nazis and the gangsterism that began in the '20's, i. e. — a lust for power and wealth extracted systematically from those they rule.

ORPHANS OF THE STORM . . . Are we awake or is it a bad dream—to find the rich and powerful United States standing alone, estranged from her allies—bereft of friends — and relying on the United Nations to make her decisions. And this when her unrelenting foe, the Soviet Union, is surrounded by her satellites—and, with the Afro-Asian Bloc, controlling the votes—and the shadow of Red

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS::1907—*"Our 50th Year of Service"*—1957

control in America, the A.F.L-C I O

China in the background.

It is not a dream—but an alarming reality produced by Mr. Dulles, the greatest Secretary of State he has ever known, according to President Eisenhower.

(to late, the Hoodlums are

We can all ask ourselves how the mess we are in today is going to ~~end,~~ unless proper steps are taken to put us back on the right track. The urgency is great, and new leadership must be found, because it should now be clear to everyone that Secretary Dulles is not the man. The failure of his efforts is evident in the Russian position and in the fact that they practically control the votes of the United Nations through a group of small countries, with our allies, Britain and France, in disgrace. This situation is shocking to contemplate.

$64,000 CHALLENGE QUESTION... Many investors have been watching with interest Revlon's $64,000 Challenge program on CBS Sunday nights—especially since the stock market is the topic on which 78-year old Mrs. Alice Morgan was challenged by 11-year old Leonard Ross. This past Sunday, the program reached a climax as the $64,000 question was reached and The Magazine of Wall Street was asked to help in the framing of one of the 5 parts of the big money query.

The question we suggested was based on the story called "Companies To Receive Major Defense Orders" by Allen M. Smythe, one of our Washington writers, which appeared in our February 2 edition. The question was to name the three companies receiving the largest government contracts for defense supplies for the 1958 fiscal year which begins July 1, 1957.

The correct answer—as subscribers who read our stories carefully will know—is (1) Boeing Airplane; (2) General Dynamics; (3) United Aircraft.

All three are issues we have favored particularly since 1953 and they have given highly profitable performance. Both contestants were able to answer this question and Mrs. Morgan, whom we have had the privilege of serving as a subscriber for two decades, added to her answer the statement that she had just read the comprehensive story on this important subject in The Magazine of Wall Street. We want to thank her for this credit line.

The exceptional knowledge of the stock market demonstrated by both contestants is based not only on the knowledge of what has gone on before but on a continuous study of the latest significant information—looking to the future. It is our earnest endeavor to keep all our subscribers equally well informed on all phases of business and investment.

COMMON SENSE PARING OF THE BUDGET . . . Congress is now getting down to the spade work of cutting the President's proposed budget—a task so important to the welfare of our nation and to the fight to keep a strong checkrein on inflation. The warnings sounded by Secretary of the Treasury Humphrey, Herbert Hoover, and William McChesney Martin have combined to make all of us aware that this is an essential matter which calls for the most diligent efforts of Congress.

As we pointed out in our appraisal of the budget in our previous issue, not only are the planned expenditures of $71.8 billions huge in proportion, but the estimate of $73.6 billions tax-take appears optimistic in view of the adjustment going on in various industries. The anticipated surplus for fiscal year 1958 of $1.8 billions leaves us with an uneasy feeling that this prediction is over-optimistic and the expected surplus could easily melt away.

Among the influential members of Congress who state that they are going to cut billions from the budget is Senator Harry Flood Byrd of Virginia, Chairman of the Senate Finance Committee, who is probably the most persistent advocate of economy in government. Certainly, a less staunch man would have been discouraged long ago at the frustration of his efforts all during the Roosevelt and Truman administrations. Now he declares that he will submit an alternative budget that will shave $5 billions from proposed spending.

While that looks like a very large order, we endorse his endeavors in this direction even though the final saving is likely to fall far short of his target. Undoubtedly, the congressional ax will be swung to a major extent against non-defense activities and particularly foreign aid. Common sense and the basic soundness of our economy must be guiding principles in budget chopping—but even the smallest reductions should not be overlooked wherever they are possible.

We are in a very real fight against the forces of inflation that have wrecked so many currencies in the past—and every citizen in our country has an important stake in this vital matter which deserves the earnest and unremitting effort of both democrats and republicans. The fight must be won!

THE U.N.'s INCONSISTENT ETHICS . . . How can the United Nations purport to be an organization guided by highest principles, when, to date, it has permitted Nehru to go scot-free and without penalties for repudiating his pledged word regarding Kashmir . . . when it proposes no sanctions against Russia which has ignored repeated U.N. requests that she withdraw from Hungary . . . when it makes no attempt to oblige Colonel Nasser to sit down and arbitrate the Suez Canal situation with fellow U.N. members, Britain and France?

And all this when that august body is so incensed as to propose sanctions against Israel for her simple request for a guaranty against resumption of Egypt's border attacks and blockade which triggered the conflict. If there is ever a clear indication of failure of Secretary Dulles, this is it.

Senator Knowland is to be commended for his promptness and gumption in pointing out the moral issues involved—and his shock over the U.N.'s policy to chastise a weak nation yet ignore more flagrant sins of larger nations. Senator Knowland has already received strong backing from Senator Wiley and we are among a vast number of Americans, both in and out of government, who share his views.

This is a matter of principle far surmounting in importance the question of Israel. For the rights and integrity of the United States as well as all nations of the world, our spokesmen should reject the U.N.'s double standard of ethics and insist that all countries be dealt with on a fair and equitable basis regardless of their size or economic importance.

As I See It!

By JOHN CORDELLI

THE TAXPAYERS' MONEY — AND MIDDLE EAST CLOAK-AND-DAGGER INTRIGUE

At a time when McChesney Martin, the head of the Federal Reserve, says that our budget may necessitate increased taxes – it seems fantastic that our government should ask the citizens of this country to finance economic aid and arms for the Middle East countries. This especially when they are in a position to help themselves by forcing Nasser to open the Suez Canal to oil traffic.

As we see the situation, we are being called upon to make up the loss resulting from Nasser's failure to live up to his agreement with Britain and France, and to finance a Middle East war against Israel which is being furthered by Russia.

In the first place, we are told this money is to be spent to forestall Communist aggression in an area which has already been so heavily infiltrated by Communism that the voice of Cairo or Damascus has become totally indistinguishable from that of Moscow or Peiping.

In the second place, our government proposes to spend huge sums for economic aid in an area already receiving foreign funds far in excess of its capacity to absorb it.

It is worth while to examine the economic aspect of our Middle East program in some detail, for it reveals the total lack of understanding by our State Department of what the Middle East's real problems are.

Can Cut Two Ways

—Manning in the Salt Lake Tribune

Mr. Dulles proposed to spend $200 million per year of our taxpayers' money on a series of unnamed economic aid projects. The only important aid projects in the Arab world for which foreign funds could theoretically be used are the Aswan Dam in Egypt and the Jordan Valley Authority system proposed by our Eric Johnston. The Aswan Dam project was rejected last year by Mr. Dulles for very sound reasons (though his manner of rejection was highly undiplomatic) and it is inconceivable that we should now want to put Nasser in a position where he can dictate to the Western world and the United States, and blackmail our oil companies as well.

The Johnston plan would be a most useful contribution to the area's welfare but it is based entirely on the cooperative sharing of the Jordan River waters between Israel and her Arab neighbors. Since none of these are willing to even recognize the existence of Israel, the Johnston plan is fated to remain a pipe-dream for a long time to come.

Is there any other economically useful way of spending such a huge sum in the Arab-Middle East? The answer is plainly no! Furthermore, our State Department ought to know that this is the case. Between 1951 and 1956 the U. S. earmarked $84 million for specific economic development programs in Egypt, Lebanon and Jordan. Yet, the countries concerned were able to absorb no more than 45 percent of this sum during these five years. The rest is still in the U. S. Treasury awaiting expenditure.

The Middle East receives at present more than $1 billion annually in form of oil royalties. On a per capita basis this represents the largest influx of foreign funds into any of the world's underdeveloped areas. In fact, the amount is so large that only a part of it can be usefully invested under the best circumstances. Of course, at present these countries all receive a good deal less than they would normally, as a result of the blockade of the Suez Canal and the ruined pipelines. This has already caused the money-hungry rulers of these countries to put pressure on Nasser to reopen these transportation routes. However, if the U. S. should make up their losses from its own pocket, the oil countries in the area may become quite satisfied to just sit back and let Nasser continue to deprive Western Europe of oil.

What the Middle East countries actually propose to do with the $200 million is not yet clear. For, officially, not one of them has submitted a sensible project for financing. However, we do know that they all would like to buy more arms, *not* to fight Communism but to fight Israel as well as each other. Since Russia is interested in keeping the area in continuous ferment and also in accumulating U. S. dollars, it seems extremely likely that our aid money will somehow find its way into the Soviet Union or China in payment for arms. Does the State Department propose to use the taxpayers' money for this purpose?

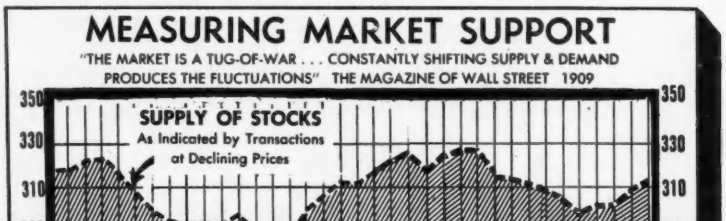
Market Realistically Revalues Stocks

The stock market reflects increasing investment concern about business prospects. Although it has not yet broken out of the trading range of recent months, a further downside test appears probable; and a basis for more than restricted technical rallies is not apparent. Continue to defer equity commitments. Stress defensive portfolio adjustments.

By A. T. MILLER

The recent phase of retreat in the industrial and railroad sections of the stock market was extended over the last fortnight, and with increased momentum last week. It took the rail average to a new 1956-1957 low by a clear-cut margin, leaving it at the poorest level since the forepart of 1955. It took the widely-watched Dow industrial average back to the immediate vicinity of a crucial support level which held under test on four sell-offs over past year or so, leaving the outcome of this added test indecisive up to our press-closing time. It cannot remain so more than briefly, for the immediate alternatives are a dive over the "precipice" or a rally.

As noted here before, the utility average reflects a substantial recovery phase for most electric power stocks, with an important assist from firming tendencies in the bond market, plus extensions of bull-market trends in some natural gas stocks. In consequence, the average rose from an October 1 reaction low a shade under 65 to a new bull-market high of 71.42 in the forepart of last week. The prior top, recorded last August, was 71.17. Utilities dipped slightly during the periods of heaviest pressure on industrials and rails in recent sessions, but the average closed last week at 71.16. Thus, this section of the market continues to look good. It should hold near the present level or rise moderately.



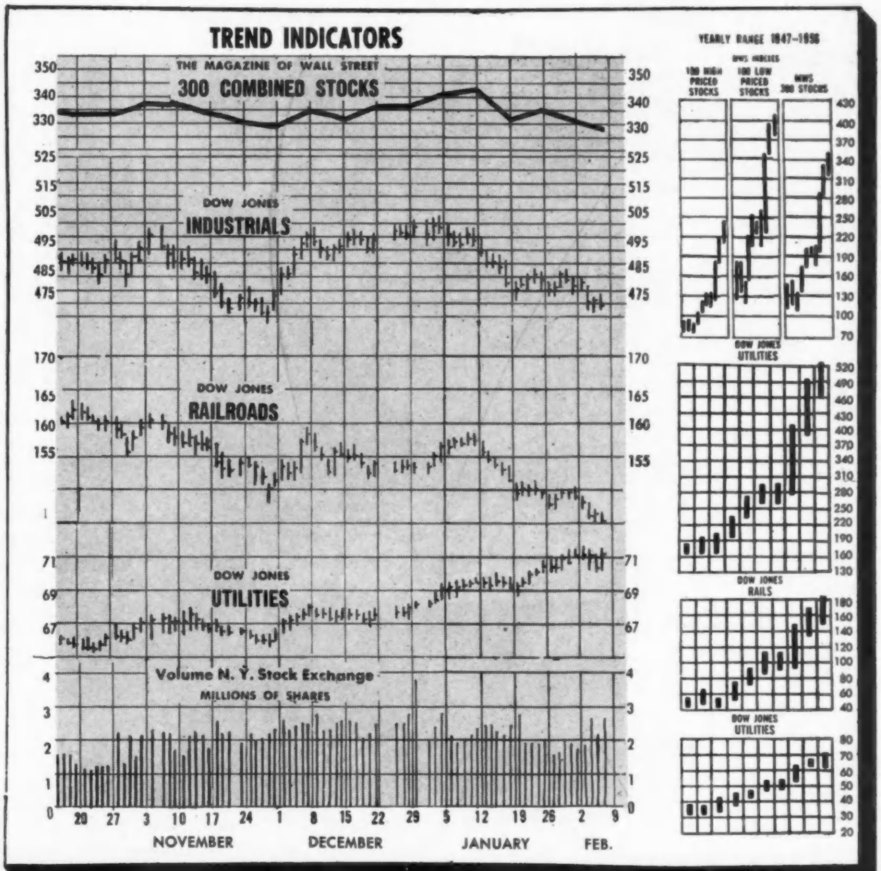
Industrials Now "On The Spot"

Although not conclusive, the trend of the industrial average is inferentially bearish. It made a bull-market high around 521 last April, almost duplicated it in August, sagged a total of about 55 points to a November 28 closing low of 466.10, rallied about 33 points to December 31, subsequently moving down to close at 466.29 last week. At the intraday extremes, its November low was 460.41, its low last week 463.19. There has been lack of forward progress for ten months, during which some stock groups had what now appear to have been "blow-off" advances, while others eased. There was over-valuation of a number of prominent "growth" stocks, requiring correction. There was the market handicap of sharply rising bond yields. Despite some soft spots, over-all business activity continued to trend modestly upward. The general trend of earnings left much to be desired, but was not too bad. There was emphasis on price inflation and more of it to come. To the year end and a bit beyond, the consensus on 1957 business prospects was mildly bullish.

In response to the pros and cons cited, the best that the average could do in its year-end upside try was to fall about 22 points short of the old top. It has since moved into a tighter and tighter "corner", as a result of lower highs week after week, while the old support level, just above 460, remained intact. Meanwhile, confidence in the business

outlook has deteriorated to a degree; and, at this time, the average has no trading-range leeway left. Perhaps it can rally; but business doubts make investors less willing to bid up for stocks, and more willing to sell. This appears to restrict rally possibilities and to increase the risk of a downside break-out either imminently or with relatively little further delay.

Of course, there is nothing really prophetic about the movement of this, or any other average. But it is representative enough to mirror composite industrial stock prices adequately for daily comparisons; and what it does at significant points unquestionably influences the thinking – and the emotions—of some numbers of investors, traders and professional advisers. Because the support level cited has been maintained so long, destruction of it could result in sharp further curtailment of demand for a time, accelerated selling, and a relatively sharp markdown in stock prices.

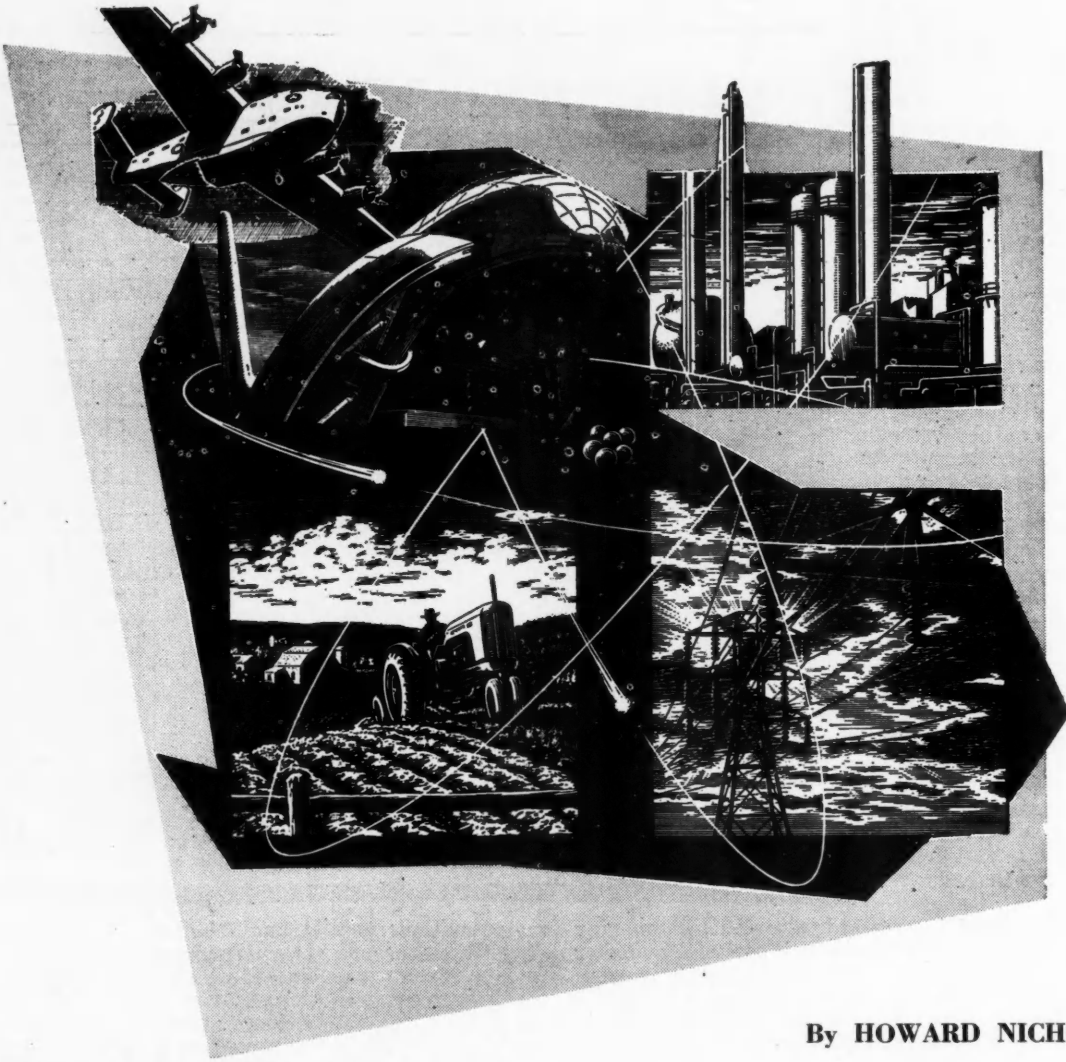


It might be of interest to note that, comparing last week's closing prices with those of November 28, 17 of the 30 Dow industrials were down, 12 were up, one unchanged. On this comparison, Telephone, duPont and International Nickel stand above their November 28 levels by from 7⅜ to 11⅝ points each, thus giving the average important support. At least in the case of duPont, this seems unlikely to continue, since chemicals generally point downward. On the same comparison, the stocks tending to depress the average most are U. S. Steel, Eastman, General Electric, Union Carbide and General Motors. Without theorizing about any Dow-Average "signal" or interpretation, and just looking at 30 stocks, we figure that the downside risk exceeds the upside potential for the majority of them at present levels. If that is right, the average will "follow its nose" into lower ground—probably accompanied or preceded by our weekly index of 300 stocks—and the market pundits will say a bear market has been signalled. But, given a breakout, no one can say whether the next firm support level will be 20 points, 40 points or 60 points lower. You would like to know, and so would we. What to do? Stay on the sidelines and let the market tell its own story both as to the immediate test and what will follow it.

Policy Of Institutional Funds Cautious

On balance, the policy of Institutional funds, as indicated by reported portfolio changes, became more cautious in the final 1956 quarter, with increased preference shown for cash, bonds and defensive type equities, including utilities. Policy is no doubt even more cautious by now. The bond market seems to have put bottom behind. Its further recovery and falling stock prices have made the spread of stock yield over bond yield the best in some time, but it remains quite moderate in historical perspective; and it has no strong appeal for fund managers —especially since what is good for the bond market (easing in business activity and demand for credit) is bad for the stock market.

You need not pay much attention to the talk at Washington about how inflation ought to be stopped "or else"; and about a depression that will "curl our hair" if Government spending is not cut. Keep your eyes on week-to-week business. There is tentative evidence that tight money, over-expansion in some lines and pressure on profit margins have tipped the scales toward coming business recession. Some signs: Shrinkage of new orders for steel, machine tools, etc.; weakness in scrap steel and nonferrous metals prices; further sags in housing, textiles, demand for appliances; some cutbacks in plant expansion programs. Probably you do not need to allow for more than a moderate business adjustment, or for a real stock market debacle—but, as to both, nothing will be lost right now by sticking to a "wait-and-see" policy, while holding intact ample reserves for later opportune employment in good common stocks. —Monday, February 11.



By HOWARD NICHOLSON

What Can We Expect—
IF 1957 PROSPERITY—
Depends on Defense Spending And Public Works?

In early 1957, one of the striking aspects of the business scene is a serious discrepancy between the general consensus of businessmen and the actual facts of business trends. The discrepancy is owing to our national habit of forecasting a year ahead in November and December, and then sticking with these forecasts well into the new year, regardless of the character of the evidence that appears as the new year itself begins to unfold.

This practice is unfortunate enough even in years when events are moving slowly. November and December are very inopportune months in which to assume the forecasting position. The months are imbued with an entirely seasonal sense of business well-being, owing in part to the Yuletide climax of retail trade. Moreover, the large quarterly statistical aggregates, which are an invaluable guide to the condition of business, are available only for the third quarter, which has its own seasonal problems owing to summer vacations, and, in some years, major strikes.

For 1957 forecasting, however, November and

December 1956 were unusually difficult periods, and presented a set of unique challenges to the forecaster's powers of imagination. There was, first of all, an almost total model-changeover under way in the crucial automobile industry. How could one forecast the public reception to these models while their actual sales rates were still inconclusive—when many models had not yet been seen by the public at all—and many others were in such short supply as to make production, rather than demand, the controlling element in sales?

Secondly, how to weigh the trend of the federal government's demands on the economy in 1957 prior to submission of the annual budget? This is a cloud that hangs over every annual forecast made in advance of the beginning of the new year, but this year the cloud was especially opaque: how would a newly reelected Republican administration, presumably pledged to the fiscal verities, deal with the mounting demands for public spending emanating from an endless array of real or imagined national needs? How weigh the impact of Suez?

Finally, at the very moment when forecasters were finalizing their figures for 1957, it was becoming clear that some unexpected somber notes were mixing with the music of Christmas. Consumers behaved apathetically at retail counters throughout late November and early December; there was a small but suggestive spate of cancellations of expansion programs; a few basic raw materials prices took it on themselves to fight the general current of rising prices. How weigh these straws in the wind?

As it turned out, the forecasts were frozen into print at a time when a mass psychology of unrestricted boom still dominated the scene. The doubts were temporarily set aside, and a fictitious clarity emerged onto the pages of the business press. For that reason, it is now essential that businessmen, and investors, take a new, longer and objective look at the landscape which now appears to lie ahead. For what appears ahead, while it may contain no abyss, is certainly more rugged terrain than the year-end forecasts suggested.

The conclusion that must emerge out of such a new look is that the strengths of 1957 lie almost entirely in the goverment sector, and in those isolated areas of the private sector where the influence of government is an overriding determinant. In the broad free-market areas of the private American economy, the 1957 outlook is no longer strong—one is tempted to say that it is weaker than at any time since mid-1953.

Symbolizing this schizophrenic outlook—strength in public demand, weakness in private demand—is the mammoth federal budget submitted to the Congress six weeks after most business forecasts were completed. For the budget calls for a large increase in government outlays – and it calls for an equally large increase in government revenues. Fiscal theorists may take some consolation in the fact that the federal budget is balanced; businessmen must add the fact that it is balanced at the highest peacetime level in history, and that while business may benefit from the spending implied in the budget, it is bound equally to suffer from the tax take implied in the same document.

The impact of prospective federal tax revenues on business conditions in 1957 is difficult to trace by sector. But it should be borne in mind that the extraction of income from the private money stream in an amount over $70 billion is a weakening influence that runs through the whole catalog of danger areas listed below.

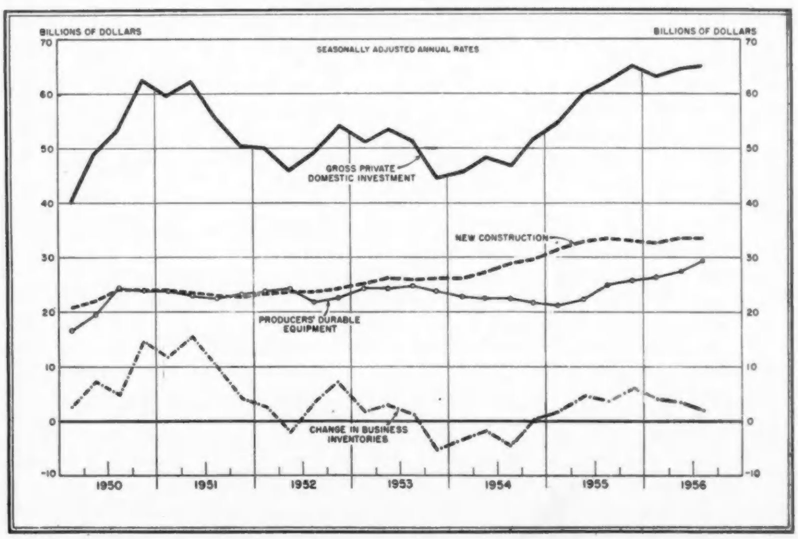
Weaknesses in Private Business in 1957

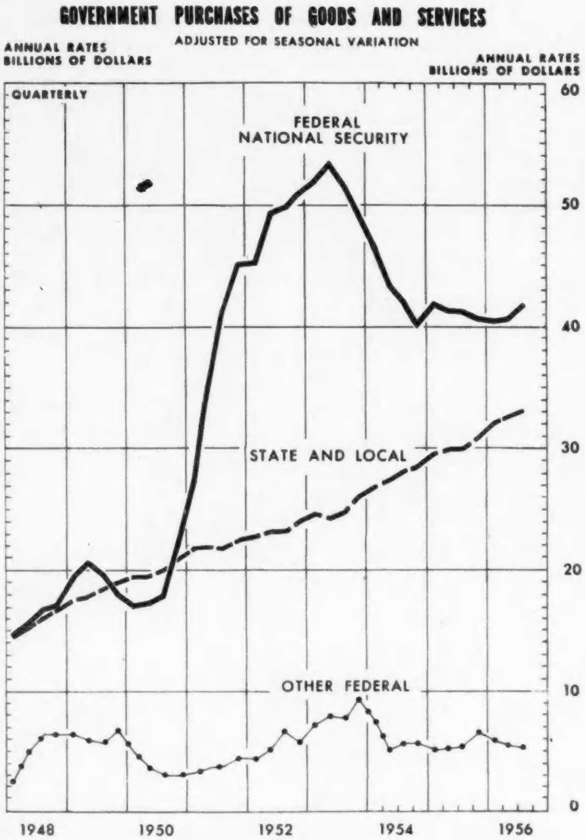
In late 1956, the American automobile industry introduced an entirely new line of passenger cars to the American public. It did so with considerable fanfare, and accompanied by estimates of 1957 sales volume ranging initially from 6.5 million to 7.0 million cars – something 10% to 15% above volume in calendar year 1956, but still below volume in 1955. The basis for this optimism, with respect to 1956 performance, was the attractive set of new models; the conservatism, with respect to 1955 performance, was owing to a sense of unease in the industry at the level of personal debt, and the length of terms on which instalment debt had been issued in the preceding several years. There was also some feeling that lack of available credit could cut a few hundred thousand sales off the 1955 performance of the market.

By the end of January, forecasts of the automobile market had been scaled down by a full ½-million cars, to a range of 6.0 million to 6.5 million, and the industry would now willingly grant that it has a fight on its hands in keeping 1957 volume at or above 1956 levels. Because of the size of the automobile industry, and because of the tremendous impact it has on supplying companies across a broad industrial range, the change in the automobile outlook is a matter of major importance to general business.

To get the feel of the 1957 business atmosphere,

GROSS PRIVATE DOMESTIC INVESTMENT





it is desirable to explore some of the reasons underlying the less exuberant volume of automobile sales. One of the important reasons seems to be a stringency in consumer finances, in all probability reflecting the fact that consumer instalment debt, which is now in the neighborhood of $32 billion, is weighing heavily on the current flow of consumer income. In fact, the repayment rate against this debt, which in the main arises from *past* purchases of durable goods, is now running at a $37 billion annual rate, and will doubtless remain at that rate throughout 1957. Together with personal taxes, which extract about an equal amount annually from consumers' incomes, this fixed burden amounts to $75 billion – almost one-quarter of total personal income! This $75 billion, be it noted, is extracted from the consumer before he has any chance to approach a retail counter. Small wonder that the enthusiasm of retailers for 1957 is somewhat dampened!

There remains another facet of the automobile situation that is suggestive. Automobile manufacturers in general raised their prices on 1957 models by about 5% over the price tags on 1956 models. But the retail prices of new cars are higher by fully 10%. The remaining 5% reflects the fact that automobile dealers in 1957 have finally won more realistic treatment from the producers from whom they hold franchises, and they are fighting this year for a fair markup on their costs. Some of this markup (and hence some of the 10% price increase) may fade later in the year if price cutting reappears among automobile dealers, as it now threatens to do. But it is not likely to be as intense as in 1956 by any means. Retail auto prices this year are thus likely to average out perhaps 8% higher than in 1956 – a significant increase for a high-priced item of consumer outlay. Moreover, much higher interest rates mean that on long-term instalment contracts the net interest cost may be as much as 20% higher. Result: marginal automobile buyers are being priced out of the market, to await better terms, better interest rates, or, perhaps, simply to keep their present car running longer.

Decline in Homebuilding

A second significant weakness in private business in 1957 is the residential building industry. The total value of residential building now runs about $15 billion per year – a figure which puts the industry in a class with the auto industry. Unlike automobiles, there is no pressing problem of saturation in homebuilding; at least there is no good evidence of it. In newer communities, vacancy rates are still strikingly low. Nor is there any evidence of a serious debt problem with respect to new homes: The mortgage debt of individuals is certainly massive, and is in fact more than three times greater than instalment debt in principal amount. But the repayment is spread over so long a term, and the average interest rate is so much lower, and so much of mortgage debt represents a substitute for rental payments, that few analysts regard this long-term debt as in a critical position.

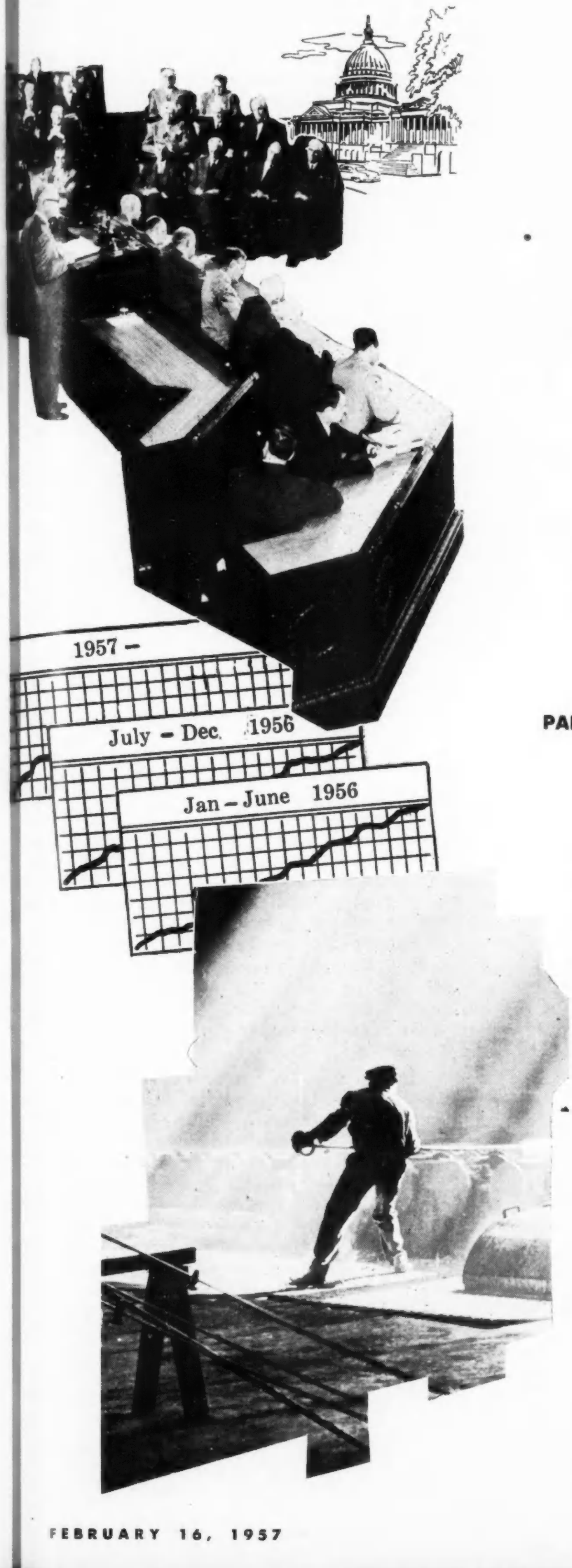
But that by no means gives the industry clear sailing in 1957. Its difficulty is that in efforts to repress broad inflationary pressures, the Federal Reserve has curtailed the supply of funds, and yet has left bidders free to pay any price for money. Result: the strongest bidders – in general corporations seeking funds for expansion and modernization – have taken the money, and the housing industry has been squeezed by a shortage of essential funds.

There is a prospect that this squeeze will abate later in the year. And there is a prospect that if the legislature passes a 5% VA interest rate, banks will be more interested in providing construction funds. There is even a prospect that by late in 1957 residential building will be in a rising trend. But there is no prospect that it will do other than decline slowly in the first half of the coming year.

Critical Level Approaching For Inventories

The first half-year is the critical half, insofar as general business conditions are concerned. If automobile sales are no higher than their current trend would indicate; and if residential building were to continue at its current level or below it, business is bound to face a major third problem in coming months. In a word, it will be facing the problem of a complete and perhaps very sudden reversal of its inventory position.

Together, automobiles and housing are significant determinants of the demand for a host of supplying industries: rubber, steel, copper, lumber, brass-mill products, aluminum products, upholstery fabrics, glass, lead. In many of these industries, capacity is already rapidly passing beyond even the demand that would be associated with booming auto production and booming (*Please turn to page* 667)



YEAR-END CORPORATE STATEMENTS

–and First Quarter Trends

Good News for Some Stockholders –

Disappointments for Others

PART 2

By WARD GATES

Like the words of the Oracle at Delphi, the opinions and pronouncements of the average business executive are often subject to varying interpretations. He says that, "Our company's sales and earnings should continue to show an improvement over the preceding quarter". Then deftly inserted, like the small print at the end of a contract, he adds a contingent amendment, ". . . provided general business conditions remain satisfactory".

It is a feature of American business, of course, to remain optimistic in the face of obstacles, and perhaps this has been the philosophic strength behind our dilating economy. Thus, the average corporate report manages to dwell happily on the achievement of increased sales and the outlook for better things to come. This or that division which has been showing an uncompromising loss is viewed not with disaffection, but with the scrutiny of a school master who tries to inspire hope in a backward student.

The tone of recent reports shows perhaps a trifle more caution than optimism. This is particularly noticeable when comparing current reports with those of a year or two years ago. Many executives have become amateur economists, and they are measuring the efforts of their companies against the Federal Reserve Board index and Gross National Product. A cross-section of their opinion suggests that business will not show very much improvement over 1956 and certainly not as much improvement as existed between 1955 and 1956. Phrases such as "We anticipate a flattening out of the boom" or "We expect slight improvement in general business conditions during 1957" are common ground at the moment.

On the favorable side, a great many officers cite the opening of new and lower-cost plants, continuing heavy backlogs of orders, the acquisition of new productive facilities or the possible freedom during 1957 from special adversities, such as strikes, inability to obtain materials or an interim period between contracts. A change for the better in these factors should, they point out, "sustain sales volume at current levels at least through the first half".

A very few officers, be it to their credit, are explaining in relative detail that earnings improvement in 1957 will be based largely on the charging of higher prices for their products. They go on to point out that unit costs have increased more than plant efficiency could counterbalance, and that the discrepancy can be supplemented only by raising prices to the customer. One wonders, naturally, whether price increases can be made to stick in the face of generally greater productivity and competition.

A few of the commonly mentioned unfavorable factors affecting earnings embrace higher freight rates, higher wage and fringe benefit costs, increased costs of steel and other materials, and more stringent interest costs for recent financing. Companies which have distributed stock dividends, sold stock or otherwise added to the stock capitalization would be in the position of having to indicate lower reported earnings per share on a corresponding net income.

Sales and Earnings Trends

In detecting the trend of 1957 sales and earnings, it is paramount to consider the facts of the interdependence of American industry. The drop in demand in one large segment of industry often has an effect in several other industry groups. Economists have been studying chain reactions in business long before Atomic Scientists applied the term to Nuclear Reaction as we know it today. A drop in demand for automobiles has its effect in steel, rubber and a host of parts-making industries. A fall-out of orders in aircraft leads to repercussions through a legion of subcontractors. If fewer private homes are built, a great many companies directly or indirectly connected with building supply suffer the reduction in orders turn by turn. Very often, the corporate executives' views of the forthcoming quarters will be hedged on how demand develops in the other companies and industries which constitute his customers.

Mr. Roger M. Blough, the forthright Chairman of *U. S. Steel,* echoed many of the typical elements affecting the outlook for 1957. In a recent report on 1956 activities, he predicts that for the time being, at least, operations should remain at capacity. He compares the prospects for the first quarter of 1957 with those of the fourth quarter of 1956, wherein operations were carried on at a high level owing to the after effects of the 34 day steel strike last summer. The outlook for the second 1957 quarter suggests a "good rate" of operations, although there might be some moderation in pressure for deliveries.

Commenting generally on earnings during 1956, Mr. Blough stated that U. S. Steel profits had been affected by greater labor and material costs, and one could parenthetically add to this list other factors, such as increased freight rates and larger depreciation charges. Capital expenditures at U. S. Steel amounted to $311 million during 1956, of which the largest proportion ($120 million) was disbursed during the final quarter. There remains about $775 million in the capital expenditure budget still to be spent. The company believes that the program can be achieved through internal sources, but this is not meant to rule out the possibility of outside financing.

As to the third quarter of 1957, Mr. Blough suggests that operations might "fall off a little but not much", largely because of vacations, hot weather, repairs and similar normal causes. Commenting on the full year, he indicates that the outlook is good and that steel producers should "wind up the year with a solid demand". In view of the largeness of 1957 heavy construction needs, such as shipbuilding, bridges, schools, Federal and local construction needs, including shipbuilding, bridges, schools, state and local government projects, oil pipe, and heavy electric equipment, there seems to be occasion for measured optimism as to 1957 sales for the steel industry. On the cautious side, sales of steel to appliance makers have slackened somewhat, and there have been some deferments of orders from the automotive industry. The net effect of the latter phenonemon thus far has been to permit a greater volume of steel to be channeled into structural shapes, oil pipe and other products which are experiencing a congested demand.

Since such an important volume of steel is forwarded to the automobile makers, it would be wise to watch closely the rate of automotive production. Detroit has been forecasting a production level of 6.5 million vehicles during 1957 compared with about 5.8 million in 1956. During January, 1957, sales of automobiles at the retail level have been slack, a state of affairs which apparently impelled the manufacturers to delay all-out production until later on, probably in the hope that the vernal season and accompanying Wanderlust will elicit greater sales from the motoring public. Perhaps a figure of 6.5 million cars to be sold in 1957 seems optimistic. Higher prices for cars, poor trade-in values and less liberal terms of auto financing may combine to reduce the tally of cars sold during the year. Hence, the possibility of only slight increases in automotive production rates may temper the dollar sales of steel.

Mr. G. P. MacNichol, Jr., president of *Libby-Owens-Ford,* reported that net sales during 1956 were about 7½% lower than in 1955. Since L-O-F is one of the most important manufacturers of automobile glass, this would tend to tie in with reports of other secondary producers to the automotive industry. The fourth quarter sales were conducted at a high level, however, and the company believes that earnings during the first few quarters of 1957 will benefit greatly from new plant facilities constructed during 1956, at a cost of about $54 million. A factor mentioned by Mr. MacNichol which might tend to operate to disadvantage this year is the increase in foreign imports. Despite import tariffs and shipping costs, foreign producers can undersell the U. S. market owing to lower labor costs.

Air Reduction Co., an important and growing supplier of industrial gases and chemicals, reported a 14% increase in 1956 sales compared

Comparative Sales, Earnings & Net Profits of Leading Companies

	Net Sales 1955	Net Sales 1956	Net Profit Margin 1955	Net Profit Margin 1956	Net Per Share 1955	Net Per Share 1956	Net Per Quarter 1956 1st	2nd	3rd	4th
	(Millions)		%	%						
Air Reduction	$ 149.2	$ 169.8	7.7%	9.2%	$3.54	$4.32	$1.09	$1.12	$1.00	$1.11
Allied Chemical & Dye	628.5	668.9	8.2	7.0	5.45	4.88	1.32	1.33	.99	1.24
Armco Steel	692.6	761.8	9.2	8.5	6.05	6.00	1.81	1.60	.84	1.75
Atlantic Refining	513.0	544.8	7.6	8.6	4.25	5.12	1.32	1.07	1.14	1.59
Atlas Powder	60.3	67.0	5.7	6.2	4.70	5.61	1.28	1.71	1.41	1.21
Bethlehem Steel	2,096.6	2,326.7	8.6	6.9	18.09	15.33	4.51	5.05	.29	5.95
Continental Oil	528.9	......	8.7	....	2.38[1]	2.65[1]	.70[1]	.60[1]	.69[1]	.66[1]
Deere & Co.	339.5	313.5	8.3	6.3	3.91	2.67	.46	.61	.38	1.21
Diamond Alkali	110.2	121.2	7.6	8.5	3.11	3.83	1.08	1.04	.95	.75
Endicott Johnson	143.0	151.3	1.9	1.8	3.15	3.06	.....	1.67[2]	.....	1.48
Georgia Pacific Corp.	91.9	121.3	6.5	6.1	2.53	2.84	.75	.66	.72	.73
Gillette Co.	176.9	200.0[3]	16.3	na	3.13	3.35[3]	.89	.85	.72	.88[3]
Granite City Steel	116.2	137.1	10.8	11.2	6.03	7.04	1.77	1.76	1.74	1.77
Hercules Powder	226.6	235.9	8.3	7.5	2.30	2.13	.55	.63	.48	.48
Inland Steel	663.3	731.5	7.9	7.2	9.52	9.43	2.54	2.70	1.17	3.09
Internat. Bus. Machines	563.5	734.3	9.9	9.3	10.64	13.10	2.92	3.15	3.31	3.72
Island Creek Coal	79.4	......	7.7	....	3.17	4.00	.98	.85	.79	1.39
Johns-Manville	284.7	310.3	8.2	8.0	3.67	3.79	.64	1.23	1.08	.86
Jones & Laughlin Steel	696.5	742.6	7.1	6.0	7.39	6.63	2.09	2.68	.16	1.90
Joy Manufacturing	81.9	121.1	8.9	9.0	3.18	6.10	1.46	1.77	1.60	1.69
Kennecott Copper	548.2	566.7	22.9	25.1	11.60	13.18	4.08	4.16	2.48	2.46
Koppers Co.	230.2	307.6	4.5	3.9	4.92	5.01	1.54	1.35	1.02	1.10
Libby-Owens-Ford Glass	281.5	259.1	12.7	11.2	6.93	5.59	1.71	1.18	.89	1.81
Liggett & Myers	546.9	564.9	4.8	4.6	6.46	6.39	1.30	1.64	1.77	1.69
Monsanto Chemical	522.3	541.8	8.0	7.1	1.98	1.80	.54	.51	.32	.43
National Biscuit	389.6	410.4	4.6	6.3	2.59	2.90	.66	.61	.63	1.00
National Distillers	500.1	543.1	3.1	3.7	1.60	2.11	.54	.54	.46	.57
Ohio Oil	257.1	......	16.0	....	3.14	3.14	.90	.72	.69	.83
Outboard Marine Corp.	85.8	122.0	9.1	9.9	3.68	5.06	1.71	2.16	1.19	1.34
Owens Corning Fiberglas	161.2	173.0	6.7	6.0	1.74	1.66	.44	.47	.38	.38
Republic Steel	1,195.0	1,251.6	7.2	7.2	5.59	5.83	1.62	1.71	.28	2.22
St. Regis Paper	257.0	330.0	7.3	6.8	2.95	3.15	.95	.86	.67	.74
Shell Oil	1,484.0	......	8.4	....	4.14	4.49	1.16	1.14	1.01	1.18
Sun Oil	663.7	734.0	6.5	7.6	4.72	5.22	1.21	1.27	1.45	1.30
Sutherland Paper	57.3	64.6	6.1	6.3	3.30	3.85	.87	1.12	.80	1.05
Union Carbide & Carbon	1,230.5	1,324.5	11.9	11.0	4.86	4.86	1.24	1.16	1.10	1.36
U. S. Steel	4,097.6	4,228.8	9.0	8.2	6.44	6.01	1.83	1.83	.52	1.83
Westinghouse Electric	1,440.9	1,525.3	2.9	.2	2.46	.10	d1.14	.38	.59	.27
Wheeling Steel	246.6	256.3	7.0	6.9	8.12	8.20	2.58	2.97	.04	2.66
Youngstown Sheet & Tube	626.2	684.0	6.6	6.3	12.34	12.62	3.01	3.34	.99	5.32

d—Deficit.
na—Not available.
1—After 2 for 1 stock split.
2—6 months.
3—Estimated.

with 1955. Because of the important reallignment of products and facilities, Air Reduction was able to report a 35% increase in net income, which was somewhat the favorable exception in American industry during 1956. The fourth quarter generated sales of $46 million, which was above the average rate of sales during 1956, largely because of a resurgence of orders from the steel industry following the summer strike. Earnings displayed a satisfactory recovery (up 11% compared with preceding 1956 quarter), and the outlook is for a continuation of this trend at least during the first quarter of 1957. The management is optimistic concerning full year results, although it is likely that 1957 sales and earnings will tend to follow the direction of heavy industrial production. Because of the company's broader diversification, it is less probable that earnings will be so hard hit from declines in steel production as was once the situation for Air Reduction.

Mr. C. M. White, the vigorous Chairman of *Republic Steel,* reported that 1956 sales were only slightly above those of 1955, again, because of the steel strike. Owing to higher steel prices and newer, more efficient steel plants, Republic was able to show a better profit margin on the 1956 sales of $1,252 million. Actual production was 6.8 million tons against nearly 7 million in 1955, and hence the better showing was based more on price than on efficiency. Mr. White presents in bold text a fundamental explanation of why steel prices must be raised. First of all, the cost of building new facilities has increased ominously, and, second, the current depreciation rates do not appear to be sufficient to cope with the probable future cost of new steel facilities. A blow to the steel makers was the negative decision from the U. S. Government, which in effect prevents the steel makers from taking the advantage of rapid writeoffs and tax deferments. In another statement, Mr. White hints at what is perhaps one of several possible answers to the problem. In combination with other companies which are doing essentially the same thing, Republic is developing taconite, which can be reduced to usable pellets high in iron content. The result would be lower shipping charges per ton of raw ore, and another result would be the possible use of new steel making techniques which might be lower as to original investment. Improved electric furnaces, the greater use of oxygen to step up the efficiency of existing blast furnaces or, perhaps, the new "cyclone" furnace may become the gateway to decreased steel making cost. To judge from the past record, Republic should be among the first to take advantage of new methodology.

In reporting *Armco's* 1956 estimated results, Mr. C. R. Hook, Chairman of the company, predicted that Armco would operate at 100% of capacity during the first six months of 1957. During the balance of the year, it appears that operations will also be carried on at a satisfactory level.

One of the smaller, but considerably improved steel companies, *Wheeling Steel,* reported an in-increase in sales on a decreased unit volume. The actual figures, as released by the president, indicated that nearly 2 million tons were produced in 1956 with sales of $256 million, contrasted with 2.7 million tons in 1955 with sales of $247 million. Like most other steel manufacturers, Wheeling is increasing its capital expenditure program, in this instance, to more than double the $17.8 million spent in 1956. Sales are relatively diversified, and heavy construction, buildings, etc. seem likely to account for much of 1957's first half satisfactory outlook.

Sales for *Youngstown Sheet & Tube* were $684 million compared with $626 million in 1955. Margins were not as well maintained, however, since unit costs appeared to have increased more than could be offset by an increase in prices. The outlook for the first half of 1957 suggests that present margins should be maintained, and that the sales background of flat rolled products should continue to be strong. The fourth quarter of 1956 was particularly robust ($216 million) and considerably above the average of the preceding 1956 quarters.

Inland Steel, like Youngstown, is an important factor in the Chicago steel market, and the company reported a prosperous fourth quarter. Its structural shape and plate products should continue to be in sizeable demand from rail car builders, construction machinery, and other customers whose backlogs are relatively high. Similar to other steelmakers, Inland experienced higher sales ($732 million vs. $633 million) on a lower volume (4,915,576 tons vs. 5,189,509 ingot tons). Current operations are at 100% of the new rated capacity of 5.5 million tons. During the second quarter, the company hopes for a near-full rate of production.

Cautionary Note on Steel

A cynic among the steel executives commented recently that his own company and those of his brother companies were digging their graves with increased production. In his view, it would lead to detrimental competition, price reduction and lower earnings. The current national capacity is about 128 million tons, and the steelmakers contemplate a medium term expansion to 143 million tons. In relation to future growth of the country, a 20% expansion does not seem precipitous. However, it does suggest that a period of poor demand for steel might have a telling effect on the lower margin producers, especially those located in ordinarily competitive districts. It also suggests that without modern, efficient facilities, the break-even point is going to be higher for the companies which do not spend money for new facilities. Forthcoming statements must be scrutinized closely for news of progress on modernization, and it will be interesting to take note of executive statements on the problem of competition, once the present backlogs have been worked down. For the time being, the steelmen point to the high rate of consumption from road construction machinery, public and other large building projects, oil pipe, highway materials, and rail car building for evidence that sales should continue to be heavy-duty for a while longer .

Sales Up — Profits Off — for Chemicals

The chemical makers experienced more competition and difficulties during 1956 than they had encountered in several years of uninterrupted "growth". *Allied Chemical & Dye* reported that sales during 1956 had increased to $668.9 million against $628.5 million, and they would have been higher, it was pointed out, were it not for the steel strike and difficulties in the agricultural fertilizer business. Despite higher sales, which were largely the result of increased prices, profit margins were down from 14.8% in 1955 to 12% in 1956. Net income was reduced from $52.1 million to $47 million. Allied is continuing to spend money to make money, and statements from management cultivate the hope that decreased costs and higher earnings should be the end result. Meanwhile, costs of labor, raw materials, freight rates and other factors are tending to offset increased prices for chemicals. The company points out that demand remains strong for most of its products, and that new plants entering production this year should help earnings. One is inclined to conclude, however, that the outlook is one of sidewise earnings for Allied Chemical during 1957, and the same holds true for many major companies in the industry.

A recent report from *Monsanto Chemical* discloses that 1956 sales were $542 million compared with $522 million for the year preceding. Costs were up considerably, so that net was reduced from $42.1 million to $38.6 million. Earnings per share were $1.80 on a slightly larger stock capitalization, vs. $1.99 per share in 1955. Weakness was experienced in sales of agricultural chemicals, and other company products were subject to competition pricewise. The basic earnings trend of Monsanto has been improved by the addition of Lion Oil, and a substantial proportion of recent capital expenditures was allocated to drilling. The third and fourth quarters were not up to earlier expectations, and the outlook for the first quarter of 1957 is for no more than slight improvement.

Koppers Company reported a net income for 1956 of $12.1 million on expanded sales vs. $10.4 million during 1955. The company has greatly expanded and diversified during recent years, and several of its divisions should be able to anticipate satisfactory gains in 1957. The Engineering and Construction division should participate readily in the expansion of steel making plants, and tar products should continue to encounter demand in the roadbuilding program. Certain of the new chemicals offered by the company may find slightly improved markets in 1957. The consolidated backlog of orders as of December, 1956, was nearly 30% above that of a year earlier.

Hercules Powder reported a small gain in sales during 1956, but wage and material costs were up in major fashion. The fourth quarter was rather unsatisfactory and was below the average for the preceding seven quarters. An important reason was special charges for the (*Please turn to page 664*)

The Price We Are Paying for—
LABOR LEADERS' UN-ECONOMIC DEMANDS

By McLELLAN SMITH

Organized labor is spawning destructive inflation by overreaching and flouting the simple rules of good business, economics—even the tenets of self-preservation.

This is not indictment by labor baiters. It is counsel implicit, as well as bold in expression, from President Eisenhower and from the No. 1 man nationally in the labor movement, AFL-CIO President George Meany.

Never before has such a blunt warning been issued to Labor as came in the President's State of the Union Message. He reiterated, and gave added force, in his Economic Message. President Eisenhower has placed inflation at home about on par with armed conflict abroad as major dangers of the United States today.

It is not unduly straining the point to say that Ike has told the labor unions they are holding the knife at the throat of American welfare!

When this country's export trade fails to progress in normal fashion, even drops behind in job-making categories; when industry looks toward trimming

its facilities expansion program because new plants may not return their cost, hence prove unprofitable; when company after company is setting up in foreign countries to beat destructive production costs, there is a problem, edging into peril.

Mine Workers' Raises Will Be Pacemakers

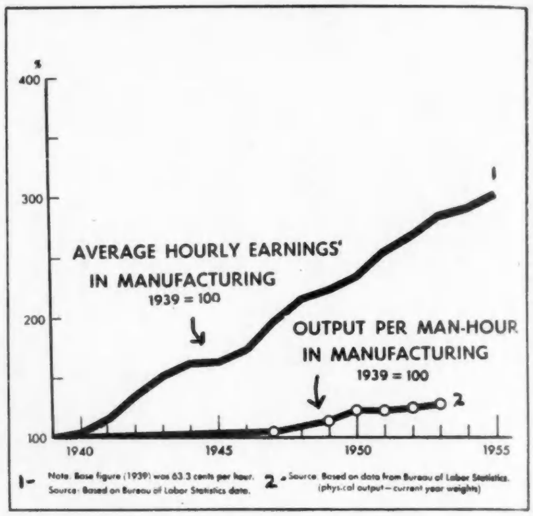
Yet the facts add up to this, and more. There are labor-management contract openings ahead. The United Mine Workers contract, up for renewal this year, is certain to "up" pay and fringe benefits that will be pacemakers for other industries. Hundreds of thousands of payrollers will get boosts this year solely on cost-of-living rise, without a line of new agreement being penned, but adding to production cost without increasing productivity.

The Supreme Court last month ruled that long-term contracts cannot prevent strikes, if they carry a wage re-opening clause—a union may strike halfway through its "long-term" contract!

Against this background and growing collateral problems the President issued his warning. It was in recognition of this that George Meany called for a stock-taking. But, as Meany wrestles with internal problems of the huge AFL-CIO—racketeering, inter-union raiding—the inflation issue may get "lost in the shuffle."

Heretofore, inflation has stemmed from two sources: (1) the creation of artificial money through the payment of government obligations by means of the printing press or sale of government securities to banks, and (2) unsound credit policies by central banks which have led to excessive credit extension by the private banking systems.

Now a new force for inflation has appeared—the upward trend of wage rates without definite or normal relationship to market conditions, or without regard for the ratio of man-hour productivity to wages. The problem is acute for the United States, a nation where trade unions are united to wield a power that at times has seemed superior to that of laws—statutory or economic.



1. During the period 1939-1955, the hourly earnings of factory workers, exclusive of the cost of "fringe benefits," almost tripled . . .
2. In a similar period 1939-1953 (the latest year covered by the figures of the Bureau of Labor Statistics), output per man-hour in manufacturing rose by 28%.

Inflation or Recession

Wage rates that rise in excess of productivity increases, forced by union economic or political power, send prices up. For industry to maintain activity and employment, there must be an increased supply of money. Government or the banking system then must supply this inflationary volume of money or resort to the alternative of curtailed activity and increased unemployment.

This latter course—curtailed activity and mounting unemployment—is economically and socially undesirable. On the other hand, the alternative of inflation—which too easily becomes endless—will ultimately bring economic collapse.

Inflation is impartial in its destruction—it hits employers and wage earners alike. Savings accounts shrink in value; pension funds, life insurance policies lose purchasing power. Mortgages, bonds—even currency itself—can become little more than pieces of paper. Caught in a treadmill of spiraling costs are wage earners, those on fixed incomes, or those whose incomes rise slowly. They all suffer acutely lowered living standards.

Failure of man-hour productivity to keep abreast of wage hikes creates a new force for inflation. Labor has stoutly maintained that wage hikes were running behind increased productivity. The claim is without merit—cannot stand up under analysis. Unim

Comparative Labor Costs

Industries With High Labor Cost Ratios	Labor Cost as % of 1955 Sales	Industries With Low Labor Cost Ratios	Labor Cost as % of 1955 Sales
AIRCRAFT Average—	40%	**CHEMICALS** Average—	25%
Boeing Airplane	37	Allied Chem. & Dye	24
Douglas Aircraft	45	Dow Chemical	27
General Dynamics	46	Du Pont	28
Lockheed Aircraft	42	Monsanto Chemical	20
United Aircraft	33	**AUTOMOBILES** Average—	24%
ELECTRICAL PRODUCTS Average—	36%	Chrysler	27
General Electric	36	Ford Motor	20
Radio Corp. of Amer.	33	General Motors	25
Square "D" Co.	41	**PAPER** Average—	22%
Westinghouse Electric	37	Crown Zellerbach	26
STEELS Average—	32%	International Paper	22
Armco	26	Rayonier	23
Bethlehem	34	Scott Paper	19
Inland	23	**FOOD PRODUCTS** Average—	19%
Jones & Laughlin	34	California Packing	25
Republic	33	Corn Products Ref.	15
U. S. Steel	39	Penick & Ford	17
CONTAINERS Average—	30%	**PETROLEUM** Average—	15%
American Can	25	Atlantic Refining	21
Continental Can	27	Continental Oil	11
Owens-Illinois Glass	38	Gulf Oil	12
		Phillips Petroleum	17
		Standard Oil N. J.	13
		Texas Co.	14

Automatic Pay Increases Scheduled for 1957 and Possible Impact on Earnings

Date	Company or Industry	Union	Employees	Amount	Possible Annual Cost* (Millions)	Annual Earnings
March 4	Dow Chemical	UMW Dist. 50	7,300	7¢	$ 1.1	59.7
March 4	No. Amer. Aviation (Ohio & Calif.)	Auto Workers	32,800	3% (6¢ min.)	4.1	28.8
March 18	Douglas Airc. (Long Beach & Tulsa)	Auto Workers	28,000	7¢	4.1	33.2
April 1	Douglas Airc. (Calif.)	Machinists	32,000	7¢	4.7	33.2
April 1	Bituminous Coal	Mine Workers	200,000	80¢ a day	41.6[1]	......
May 22	Boeing (Washington)	Machinists	23,000	7¢	3.3	30.4
May 29	General Motors	Electrical Workers	40,000	2½% (6¢ min.)	5.0	1,189
May 29	General Motors	Auto Workers	375,000	2½% (6¢ min.)	46.8	1,189
June 1	Int. Paper (Southern Kraft Div.)	AFL-CIO Unions	12,300	5% (9¢ min.)	2.3	83.1
June 1	Chrysler Corp.	Auto Workers	140,000	2½% (6¢ min.)	17.5	100.1
June 1	Ford Motor	Auto Workers	140,000	2½% (6¢ min.)	17.5	437.0
July 1	Steel Industry	Steel Workers	500,000	7¢-13¢	72.8	......
July 1	Anaconda Copper	Mine-Mill	8,600	6¢ plus	1.1	111.4[e]
July 1	Kennecott Copper	Mine-Mill	10,000	7¢	1.5	125.5
July 30	Caterpillar Tractor	Auto Workers	18,000	6¢-7¢	2.2	55.4
Aug. 1	Alum. Co. of Amer.	Steel Workers	17,400	7¢ plus	2.5	87.6
Aug. 23	International Harvester	Auto Workers	40,000	2½% (6¢ min.)	5.0	49.6
Aug. 28	Allis-Chalmers	Auto Workers	9,000	2½% (6¢ min.)	1.1	24.8
Sept. 1	Bendix Aviation	Auto Workers	16,000	2½% (6¢ min.)	2.0	24.3
Sept. 1	Armour	Packinghouse	25,000	7½¢	3.9	14.7
Sept. 1	Swift	Packinghouse	20,000	7½¢	3.1	14.0
Sept. 15	General Electric	Electrical Workers	83,000	3% (4½¢ min.)	7.8	200.9
Sept. 25	Libbey-Owens-Ford	Glass	10,000	5¢, or fringes	1.0	36.0
Sept. 25	Pittsburgh Plate Glass	Glass	12,000	5¢, or fringes	1.2	61.4
Oct. 1	American Can	Steel Workers	20,000	7¢	2.9	36.0
Oct. 1	Continental Can	Steel Workers	17,000	7¢	2.5	24.2
Oct. 14	Westinghouse Electric	Electrical Workers	55,000	3% (5¢-10¢ max.)	5.7[2]	42.8[4]
Nov. 1	Class 1 railroads	Non-operating Employees	728,000	7¢	106.0	....

()—Latest reported. [e]—Estimated.
*—Computed at minimum rate of increase for 2,080 hours at straight time.
[1]—For 260 working days.
[2]—Calculated at 5¢ per hour.
[3]—Before depletion.
[4]—1955 figure. Est. earnings for 1956-strike year—$3.5 million.

peachable figures by so impartial an agency as the U. S. Bureau of Labor Statistics utterly refute the claim.

During the 1939-1955 period, the hourly earnings of factory workers, exclusive of the cost of fringe benefits, almost trebled. In an almost identical period (1939-1953, latest year covered by figures of BLS), output per manhour rose only 28 percent. In brief, wages went up approximately 200 percent while productivity rose 28 percent.

Another claim of Labor is that wage hikes are needed to meet mounting living costs. Parenthetically, living costs mount largely because of Labor's demands for more and more pay, greater fringe benefits. Like the productivity *versus* wage rates dispute, this claim is fallacious on the record. In the 1947-1957 decade, living costs mounted 26.7 percent, while net take home pay of industrial workers has advanced nearly 70 percent.

If organized labor's leaders are genuinely concerned with the welfare of their rank-and-file membership, they would do well to heed the President's warning and take economic facts into consideration.

Industry's dollar is split six ways—49 cents for materials; 29 cents for payrolls; 9 cents for taxes (Federal, state and local); 6 cents for repairs and replacements; 3 cents for research and promotion; and 4 cents for profits. When wage hikes are demanded and productivity is not proportionately increased, there is less money for the other necessities of industry unless it resorts to price boosts.

Wage Increases Valueless

And price increases travel all down the line, get right back to labor itself, thus making the wage increase valueless. When a basic commodity—such as steel—advances in price, even labor's pantry is affected. The cost of tin cans perforce advances, and canned foods comprise about 22 percent of the family larder. Meanwhile, management wishes to stay competitive—tries to hold down prices—finds itself looking for other ways to trim costs, very possibly defers plant expansion. Such deferment means less work for building trades workers, consequently less work for employees in such industries as steel, cement, brick and lumber, to name a few.

If, however, the manufacturer elects to absorb the whole cost increase—hold prices down—he has to whittle profits as well as defer plant expansion. When profits take a dip, there is less money for

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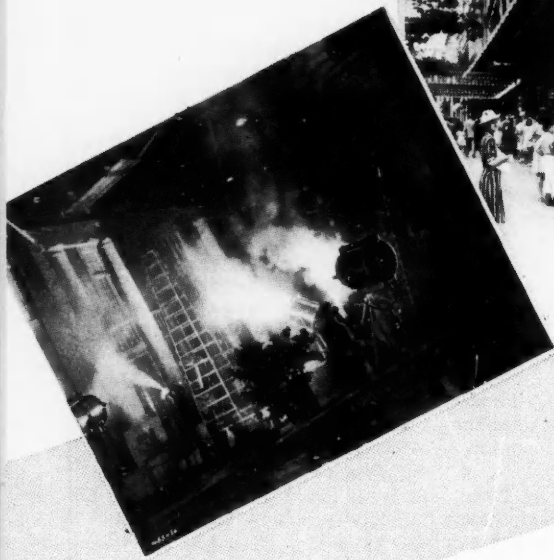


MOVIE INDUSTRY *at the* CROSSROADS

By JOHN WINGATE

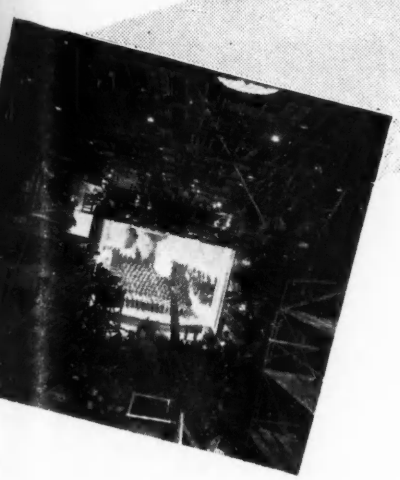
A year of kaleidoscopic and colossal decisions —to borrow a couple of superlatives immortalized by moviedom—is dawning for Hollywood producers. Consequences of impending actions are destined to have important repercussions not only from Broadway to the Pacific Coast but also in the canyons of Wall Street.

In short, the keenly competitive – and at times acrimonious—struggle between the motion picture industry and that vigorous upstart television is approaching a climax. The coming months may see a make-or-break situation. It seems to be a question of whether major movie makers can keep pace under the handicaps with which they have been saddled over the years or whether they must revamp operations on a sweeping scale.

Merge Or Be Submerged

Recognition of the stakes involved was evidenced in the statement of Spyros P. Skouras, a veteran of the American motion picture industry since its nickelodeon days, when he recently ventured the observation that 1957 would prove a "year of destiny" for Twentieth Century-Fox, the company he heads. He has been regarded as the dominating force in this company's operations and trade authorities have been pondering what would happen if he should decide to step aside. In announcing his plans for producing the largest quota of pictures for 1957 since the beginning of World War II, Mr. Skouras appears to have thrown down the gauntlet to the remainder of the industry as well as to TV. Broadway and Hollywood are watching with interest the outcome of this daring venture.

On another battlefront, Loew's—top banana in the film world—is just recovering from a bitter internal contest which threatened for a time to virtually wreck the organization. The warring factions only a short time before the annual meeting of stockholders reached a truce and agreed on a new slate of directors. Stockholders hope that this develop-



ment may permit restoration of aggressive management forces with which the company has been blessed in the past. Elsewhere rumbles of mergers or working agreements in productive activities are heard. Where conversations along this line will lead is anyone's guess. It seems evident that something must be done – and done promptly – to solve basic problems with which the industry has been plagued. Some of these may be summarized in this fashion:

Problems Confronting the Industry

Can the motion picture industry as now constituted compete effectively with television, which has gained such prestige? Can major producing organizations continue to carry a horde of supernumeraries and so-called executives accumulated in a bygone era of prosperity and still function competitively with other entertainment media? What policy should be adopted toward high-priced stars whose popularity in a previous generation commanded fabulous pay checks? Will mergers among producing units, resulting in reduced output of pictures, solve the problem? Or should there be more and better quality releases? What about the future of the "downtown" theatre as open-air arenas expand?

These are the principal issues awaiting clarification as investors owning shares of major producing concerns clamor for more satisfactory operating results. Progress appears to be shaping up, but the actual outcome can only be guessed at. Evidently the days of high priced picture stars have "gone with the wind"–to mention a familiar movie title. Astute business agents have devised a method of incorporating individual stars and their associates in private companies that can produce a picture or a TV program which may be sold (for a capital gain and a minimum income tax liability) as a "package" for later distribution or telecasting. Whether such an arrangement will be permitted to stand indefinitely seems likely to be clarified in forthcoming government litigation.

Film Libraries Being Released

The popularity of TV spectaculars appeared to have induced principal motion picture officials to yield to pressure from the telecasting industry for distribution of their film libraries. RKO Pictures started the parade a couple of years ago and Warner Bros. Pictures followed about a year ago. Since then Twentieth Century and Loew's have worked out contracts for leasing pre-1948 films to companies prepared to find sponsors and arrange for telecasting time. Revenues to the film companies as well as the exhibitors should prove lucrative. Inasmuch as all the old films have been fully amortized and no production costs are involved, substantially all of rental income received by Loew's, Twentieth Century, etc., can be carried through to pre-tax income.

Some of the fine pictures of the past have attracted exceptionally large TV audiences in spite of the late hour at which most of them have been telecast. Professional rating services have chalked up surprisingly high marks for several of the pre-1948 favorites. According to trade publications, the film "Thirty Seconds Over Tokyo" drew an audience on its initial showing in Los Angeles last fall that overshadowed the number of viewers on all other six competing stations. This factor illustrates the drawing power of quality films and suggests what factors are involved in the contest between the movie industry and TV for popular support.

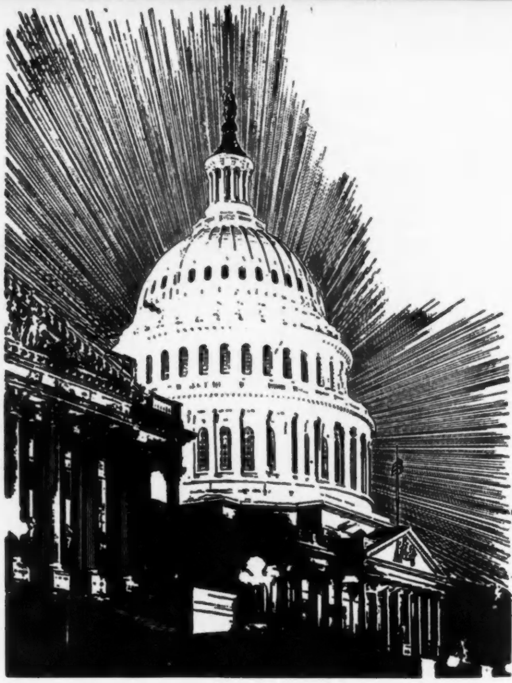
"The truth is," a leading New York TV critic commented lately, "the Hollywood pictures (oldies being currently shown) are better than ever–on the home screens. And it's necessary for the creative brains of live TV to meet the challenge. If they fail to do so, the medium may become, in good part, merely a nationwide theatre for the exhibition of second, third and fourth-run films." Old films being currently distributed to metropolitan homes via TV "are the products of years of creative work, millions of dollars and some of the world's most popular screen personalities," the critic adds in explaining the success of attractions recently released for TV by major studios.

Citing the public's strong acceptance of the latest film presentations, publicity representatives of CBS-TV in New York claimed: "Nearly 90 per cent of late viewers tuned in 'Command Decision.' It topped its closest competition by 11 to 1."

Some Improvement In Attendance

In hoping for definite progress in solving some of the major problems confronting the movie industry, executives can look forward this year with some assurance that economic conditions are working in their favor. Theatre attendance is on the rise, suggesting the possibility of larger gross revenues with which to meet increasing distribution costs. Reasons for the resurgence in box office receipts may be guessed at, but it still is too early to say definitely whether the trend is likely to endure. An indication of possibilities through the remainder of the winter and spring can be gained from trade reports to the effect that one movie chain experienced its largest gross in early January in the history of the circuit.

Receipts have been (*Please turn to page* 660)



Inside Washington

By "VERITAS"

AFL-CIO REPORT on business conditions and the outlook is one of the most respected and widely read union utterances in official Federal offices. There was no public quarrel with the 1956 roundup: "Preliminary figures for the full year 1956 show the American economy set new records for output, income and sales. Nevertheless, economic developments in 1956 were characterized by lack of balance. A boom in business investment resulted in rising output and sales in industrial and commercial construction, and in heavy goods manufacturing such as steel, machinery, industrial equipment and railroad cars. There were consumer-related declines."

WASHINGTON SEES:

The inexorable march of time is effecting a change in Federal Government that could be vastly more meaningful than the elections of 1952 and 1956: the Supreme Court of the United States is on its way back to basic conservatism.

Justice Stanley F. Reed's retirement is only several weeks away and Justice Felix Frankfurter is reported to be getting his papers in order, ready to follow suit. This would mean replacements by President Eisenhower, the effect of which would be to install Ike nominees in the majority.

For the second time within one generation normal processes are accomplishing what Franklin D. Roosevelt couldn't bring about by an impatient and ill-considered court packing scheme. FDR had only to wait and the power to place on the bench a majority of his selection was his. Dwight D. Eisenhower seems likely to have the same opportunity, in much shorter time.

Justice Frankfurter is the evangel of "liberal" judicial opinion and his professional high rating makes him a strong court member. What effect his retirement might have on colleagues — including Chief Justice Earl Warren — invites speculation pleasing to the Conservative wing.

GOVERNMENT costs came in for both credit and condemnation. Credit because government buying importantly increased production, helped the job situation. But the unioneers, finding the trend dangerous, had this to say: Less than five months after the Republican Party pledged in its 1956 platform "to reduce the cost of government," the man elected on that platform asked Congress for more money than has ever before been spent in peacetime. It was the third time in succession that he asked for more money in his annual budget. AFL-CIO president, George Meany, however, apparently had other thoughts, for he is quoted as saying that the Government could well spend more money and should take steps to ease its tight credit policy.

TAX EXEMPTION on money spent to "educate" Congress has been denied to backers of the natural gas bill, but it shouldn't concern them much: indication is that they'll get their bill through this session without educational outlay. Assuming, that is, that they are now willing to let the legislative wheels turn without greasing. President Eisenhower and the democratic leadership in Congress are united behind this bill. Its veto last year was unrelated to the merits, as Ike saw them. The form "outside help" took killed it then. The "helpers" are silent now.

PAY RAISES for military personnel ran into a fatal block before the proposition had been translated into bill form: it was found that Congress was to be asked to vote higher salaries for the Generals and the Admirals than the Senators and Representatives get. Naturally this wouldn't do! The boost wasn't designed particularly for high-placed officers. The services are trying to retain service-taught skills, stem the outflow of enlisted men to inviting civilian payrolls.

As We Go To Press

▶ Only one month of the Congressional session has passed but already it's clear that this will be a "legislating session." There will be controversies galore: the liberal, the conservative, and the straightaway Eisenhower programs assure that. There is strategic advantage in the fact that three routes are charted rather than simply a pro- and an anti-Administration program. Ike's blueprint will serve as the ground for compromise and the net result will be a product very close to what the President is asking.

▶ Civil rights and federal aid to schools go hand in hand. By stating and reiterating the principle that major legislation, schools included, must not be retarded by the roadblock of integration, Ike has thrown in with winning votes for education. Possibly for a watered-down civil rights measure, but most important he has joined the southern delegates for separation of the two issues, given members of his own party the all-clear signal to throw out the Powell Amendment and like propositions. If aid to schools is voted (and it won't be voted with compulsory integration) there will be pious declarations on the subject of equal rights — enough to put it down as "progress."

▶ The contentious subject of immigration law reform should be handled with little bickering this time. To obtain aid for the Hungarians and others similarly situated, piecemeal handling of the issue will be decreed. The bars won't be let down across the board; they'll be suspended only to the extent that the humanities demand.

▶ World Trade problems promise a fight. There will be resistance to placing this country into any formal world organization where there's possibility that tariff schedules will be written by other countries, bi-lateral treaties for example. Even the power of the President to veto decisions of the U. S. Tariff Commission will be challenged. But if this right is scrapped or limited the reciprocal trade agreements system might go out the window. Neither party seems to want that, so the President is sure to retain existing authority.

▶ Congress won't make the tariff and trade problem a wholly partisan issue. The day when the northern republicans wanted protective tariff and the southern democrats wanted free trade, uncomplicated by other considerations, is gone. Then very little attention had to be paid to Europe, for example. Now with the "common-market" idea catching hold there close scrutiny is indicated. An admixture of politics and economics has produced visions of trading among the participating countries with tariff walls down.

▶ The "common market" notion was put down as an idealistic dream until the French Assembly's recent vote of indorsement came by wide margin. Best bet still is that it won't come about, that national jealousies and localized interests will stand in the way. But it is something to contemplate with serious concern, with one country already on record for it: a quarter-billion people without quota or tariff slowing the free movement of goods; an employment policy which permits labor to move about freely, country to country, and capital with none of the restrictions of territorial confinement that now exist.

▶ This is what is sometimes called the "Third Force," the other two being the United States and Russia. With the territory, population and resources which would be united, a new world bloc would come into existence with mutual economic gain, plus more abundant life, as its adhesives. The basic idea received a setback when the European Defense Community program of 1954 failed of adoption. But the European Community for Coal and Steel became a fact. And the six nations which banded together in that pact are the planners of the "Third Force." They are France, West Germany, Italy, Belgium, Luxembourg, and the Netherlands.

▶ As a political party, the farmer-

labor alliance amounted to little except in isolated instances. The community of interest wasn't there and couldn't be implanted by political oratory. In the next several weeks the concept will be put to a new test. Forecast is that an even wider breach will result. The farmers will make an open fight against Taft-Hartley Act and wage-hour law amendments which organized labor will seek. Naturally this will bring retaliation, but agriculture expects no more than the statu quo out of this session, feels confident that while nothing may be added, nothing will be taken away either.

▶ When the labor bloc in Congress makes its move to restore elements of the old Wagner Act, the farm bloc will be waiting. The American Farm Bureau Federation, contending agriculture is paying for labor's gains, will propose other amendments — strengthening the Act by prohibiting featherbedding, industry-wide bargaining, and all forms of compulsory unionism.

▶ While the farmers have remained out of the labor legislation picture in the past, they're set to be in with both feet this year. For example they will ask their substantial bloc of Congressional votes to be counted on the side of right-to-work laws, now effective in 17 states but subject to repeal if Congress strikes down the enabling portion of the Taft-Hartley Act. Requiring union membership as a condition of employment, says AFBF "is the antithesis of freedom of choice which is the heart of U. S. Constitutional liberty." And: "It would be a disastrous day for American agriculture if Congress should ever enact legislation compelling farmers to join farm organizations."

▶ An equally sensitive issue is antitrust legislation. In the opening week of the current session, Congress was told by united farm groups: "No segment of our economy — business, labor, or agriculture should be exempt from antitrust legislation. Union endeavors to dictate prices, control production, prevent or hinder the adoption of technological improvements, or restrict sales territories or outlets should be subject to antitrust statutes."

▶ Another especial target is legislation to increase the minimum wage from $1 to $1.25 an hour within the jurisdiction of the Federal laws, and to increase coverage to bring in new employments. The farmers say such a law would be impossible of administration in a calling where the work day and the work week are necessarily irregular, where the overtime paid on certain days would almost double pay for normal time (eight hours). Agriculture doesn't expect that to come about. But the spokesmen say minimum wages which force upward the scales in rural areas operate to prevent the normal development of industry there. Yet the rural areas are greatly in need of industrial employment.

▶ There's agreement from the White House on down that the workings of the country's money system needs overhauling, or at least study. There's no agreement on how, or by whom, it should be studied. The President devoted space to the problem in two messages; he asked for creation of specialists from outside the government. But whether Capitol Hill goes along on creation of such a commission, it is certain that one or more congressional probes will be under way at the same time.

▶ Congress, through a House Banking subcommittee headed by Rep. Wright Patman of Texas, already has broken the investigative ice. This will be an "unfriendly" examination from the standpoint of the Administration. Rep. Patman has not attempted to hide the fact that he has reached major conclusions in advance of testimony-taking. But if his committee gets its study sufficiently headlined, and a report presented to Congress before an independent commission makes an objective report it will have priority.

▶ There would have been a Patman Committee project even if the President had not mentioned the subject. The Texan has been generating steam for several months. The committee action was pro forma, taken for granted. It authorized him to probe the financial structure of the country, including federal monetary and credit policies. This, it will be seen, is a mandate broad enough to cover just about the entire operation of government. It's broad enough to justify Patman in making a thoroughgoing probe of the Federal Reserve System and that's precisely what Patman has been after.

MOLETT
OF FRANCE

ADENAUER
OF GERMANY

Britain and Western Europe Act to Solve Problems

By JOHN H. LIND

The one positive aspect of the ill-fated British-French venture in Egypt is that it forced Western Europe into a long-overdue reappraisal of its economic, military and political position in the world of today. Actually, such a reappraisal had been in the wind for several years. But it took the Suez Canal affair to dramatize the dangerous degree of Europe's dependence on overseas areas—be it the Middle East or Texas—for its most basic raw materials. It also demonstrated that American foreign policy is now following an increasingly independent course from that of its European allies and also that the United Nations Organization has become numerically completely controlled by the anti-Western Afro-Asian and Communist nations.

The most important result of this reappraisal is the realization that the key to Western Europe's political and economic survival is *unification.* The three-lane road leading to this goal consists of (1) the *Common Market,* (2) *Euratom* and (3) the *Free Trade Area.* Of course, all of these existed on paper long before the Suez affair (the Magazine of

Wall Street devoted an article to it last spring). But up to now they appeared to belong to the category of projects of which everyone approves in principle but which are doomed to bog down permanently under the weight of restrictive qualifications insisted on by each would-be adherent.

The current Common Market and Euratom meetings in Brussels and the complete re-orientation of Britain's attitude towards these two projects are a clear demonstration of the basic change that has lately come over those charged with planning for a more united Europe. The emphasis this time is on the necessity to reach agreements and to get on with the creation of the two projects. Paul-Henry Spaak, the dynamic chairman of the conference, believes firmly that the twin birth of Euratom and the common Market can be officially announced before the end of February. Undoubtedly, they will be very weak twins, subject to a good many childhood diseases in the growing up process. That is to be expected. But within a few years they are expected to reach full maturity. After that they should be able to hold their own agianst any bullying or cajoling power bloc in the world.

The Common Market

What are the main features of these two organizations now emerging from the Brussels meeting? The common Market is to be an economic unit made up of France, Germany, Italy, Belgium, Holland and Luxembourg. Within this area there will eventually be no trade restrictions of any sort. Instead, it will have a single trade policy toward the rest of the world. The achievement of this goal is scheduled to take a number of years, with further extension if necessary. This program is to be divided into ten periods during each of which the member countries are required to reduce their mutual tariff walls by an average of ten percent. However, the decision of which individual tariffs should be reduced is left up to the discretion of each country. While regional tariffs are disappearing, a new common tariff towards the outside world is to come into existence. This common tariff is to be based on a simple average of existing tariffs. But, in deference to the wishes of the low-tariff countries Belgium and Holland, the computation of the common tariff rates for raw materials and semi-manufactures will ignore any existing tariff above 3 percent and 10 percent respectively. This means that the future tariffs for these two types of goods will be definitely on the low side, an important factor to note for U. S. exports to Europe, which consist largely of goods in these categories.

The only major group of products temporarily protected from the full consequences of these provisions are agricultural goods. This is due mainly to the fact that—very much like in our country—economic protection of farm output has become a political fact of life in each of the member countries. In this sector the gradual abolishment of regional tariff rates would therefore coincide with the establishment of minimum prices in each country. By the end of the transition period these are to be fused into a single price level for agricultural goods throughout the Common Market.

Organizationally, the Common Market will be supervised by three bodies: a permanent executive European Commission, a Council of Ministers and an Assembly. The most important of these will be the Council of Ministers made up of a Cabinet member delegate from each participating country. In the first four years every proposal of the Commission must have the *unanimous* consent of the Ministers. Beyond that, a "qualified" minority—consisting of at least two countries—can veto any Council of Ministers decision. Thus the extremely delicate problem of transferring national prerogatives to a supra-national organization, which has proved the unsurmountable stumbling block for so many previous schemes of this type, seems to have been successfully solved by delegating supra-national powers to a body made up of national Cabinet members, each of which is subject to the political realities in his own country.

Euratom

Concomitant with the Common Market, Euratom will come into existence. This agency will be concerned with only one sector of the Common Market: atomic energy. In its present draft stage, which is probably final, the following functions are assigned to the Euratom Agency:

(1) *Research.* Establishment of a common research center with at least five reactors and an initial budget of $250 million; an atomic university and a technical committee entrusted with coordinating outside research.

(2) *Technological control.* The monopoly right to make scientific exchange agreements with countries outside the Common Market; establishment of a private patents pool to which all countries must subscribe and on which all countries and private firms may draw under non-exclusive license arrangements; an overall investment plan for nuclear power facilities; an isotopic separation plant for the area so as to reduce Europe's dependence on the U. S. for enriched uranium fuel.

(3) *Atomic Weapons.* Extension of Euratom powers over all military aspects of atomic energy, including the exchange of knowledge and inspection right of all installations using or producing fissile materials.

(4) *Purchasing of Fissile Materials.* Monopoly of purchase of fissile materials from outside the Euratom area and a first claim on any sold within.

Obstacles To Common Market

Both the Common Market and Euratom still contain a good many unsolved problems which are likely to create some difficulties in the days ahead. In the Common Market project the most important hurdle still to be passed is ratification by the national legislatures of the six member countries. This will undoubtedly bring about some sharp debates, particularly in France which is worried over the fact that the extremely high social security taxes payable by its employers make it difficult to compete with the manufactured goods of other member countries whose social taxes are much lower. Another point still to be settled is the relation of the Common Market to the overseas territory of the member countries. This is of particular concern to France and Belgium who are in need of funds to develop their African territories. France has proposed a common investment fund for this purpose

amounting to $1 billion per year. The other countries have basically concurred but are not willing to tie themselves down to any specific amount.

For France such a fund would be of vital importance particularly in view of the recent finds of large-scale oil and copper deposits in the Algerian Sahara. According to some experts, the oil deposits alone could eventually make France completely independent of the Persian Gulf oil fields. This has given an entirely new urgency to continued French possession of Algeria. France is therefore most eager to get the other West European nations committed to uphold the overall status-quo of French administration of Algeria by sharing in the cost of developing the area's resources under French control. This new controlled source of oil would make Europe independent of the Arab bloc.

On the domestic economic scene France's leaders must be able to withstand the onslaught of the myriad of special interest groups which enjoy protection in form of subsidies, special tax reliefs or high duties, all of which would be outlawed under the Common Market. Some protective devices are present in every European country, but nowhere have they become as much a part of economic life as in France. Of course, the fact that France has been permitted to retain some special protective taxes and subsidies for the first four to six years has greatly alleviated hostility against the project and has produced a parliamentary vote of confidence for Premier Mollet's stand at the Brussels conference.

Retaliation Against U. S. Interests

The one ugly feature about the recent French parliamentary debate on the Common Market was a resolution, signed by four former prime ministers, proposing to exclude all foreign firms established in Europe from the benefits of the Common Market. This was mainly directed against the U.S. which is by far the largest non-European investor in the area covered by the proposed project. There is very little likelihood that the resolution will be passed either by the French Parliament or by that of the other member nations. If it ever did, it would mean the end of all European branches and subsidiaries of American business concerns.

Quest For Energy

For Euratom the road ahead seems a good bit clearer than for its Common Market companion. For one thing, there is as yet no vested interest in the field of atomic energy. For another, there is a real dire need for a new energy source which does not have to be imported. Of course, so far, continental Western Europe has not even begun on its first atomic power station. In this respect it is far behind the United States, Britain or the Soviet Union. Therefore, it would be misleading to assume that atomic energy can help to alleviate Europe's energy dependence on overseas areas in the near future.

COMMON MARKET AREA – ELECTRICITY PRODUCTION
(in billion of kwh)

	1955	1960	1965	1975
Hydroelectricity	70	87	103	117
Atomic Electricity	....	....	10	82
Thermal Electricity	119	183	247	411
Coal-generated	(101)	(151)	(199)	(276)
Oil-generated	(18)	(32)	(48)	(135)
Total Electricity Output	189	270	360	610

The accompanying table shows the contribution atomic energy is expected to make to the Common Market area's electricity production over the next eighteen years.

This means that even in 1975 only 13 percent of electricity production will come from atomic energy. In 1965 the figure will be only 3 percent and in 1962, when the first commercial atomic power station is expected to start operating, it will be a mere fraction of one percent. It must also be kept in mind that these percentages apply not to the area's total energy consumption but only to electricity which itself fills only a small part of total energy needs. The big progress will come after 1975 when *all* new power plants will be fueled by atomic energy.

Britain And The Common Market

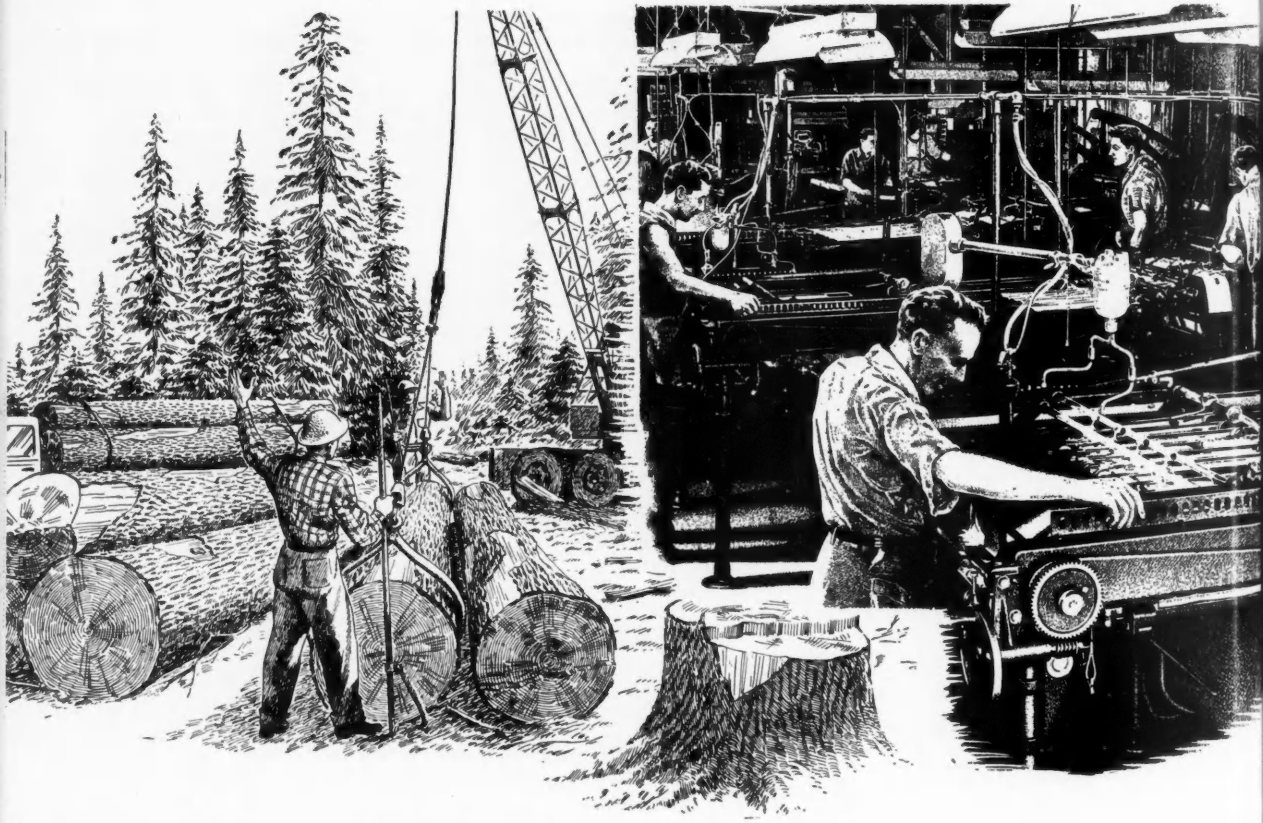
The future of both the Common Market and Euratom depend largely on its relations with Britain. Since Britain is still the world's second largest trading nation and has already become the world's foremost builder of atomic power stations, her acceptance or rejection of Europe's invitation to participate in the two projects will have a profound bearing

(*Please turn to page* 670)

ANALYSIS OF GOLD MOVEMENTS
(United Kingdom)

	American aid	‡ E. P. U. settlement	Other gold & dollar movements	*Change in reserves	Reserves end period
	millions of United States dollars				
1956					
December	+6	–52	–158	+168	2,133¢
November	+4	–31	–253	–279	1,965
October	+7	–28	– 63	– 84	2,244
3rd qtr. monthly av.	+8	–39	+ 12	– 57	2,328†
2nd qtr. monthly av.	+3	+14	+ 19	+ 36	2,385
1st qtr. monthly av.	+6	–18	+ 64	+ 52	2,277
1955					
4th qtr. monthly av.	+3	–42	– 36	– 75	2,120
3rd qtr. monthly av.	+7	–37	– 82	–112	2,345
2nd qtr. monthly av.	+15	+17	– 28	+ 4	2,680
1st qtr. monthly av.	+16	– 2	– 46	– 32	2,667

*Allows for service payments on U.S. and Canadian credits, and special payments. ‡ Allows for routine payments off old debts. † September, 1956, reserves include payment by U.S. interests of $177m. for Trinidad Oil Company. ¢ In December, 1956, $561m. was drawn from the I.M.F. and added to the reserves.



PAPER SHARES PAST THEIR CREST

By PHILIP DOBBS

The paper industry has started 1957 with a lower-than-capacity level of operations, a situation which contrasts sharply with a year ago, when shortages of paper products were common and capacity operations were the rule. Furthermore, annual reports of paper companies for 1956 were not too impressive.

As a result of this rather quick shift, paper securities have lost much of the glamor which they appeared to possess early in 1956. The atmosphere of rising sales and profits, and increased dividends, which surrounded the paper industry last year, has been replaced by an air of uncertainty.

A careful appraisal of the situation indicates that the industry has been going through a readjustment during the last six months. Earnings of the leading low cost producers in 1957 should make a favorable comparison with 1956 as a whole, although in many cases the net profit level of the first half of last year will not be equalled. But marginal paper companies may sustain a sharp drop in net profit. Any general recession, however, would mean reduced sales and earnings for the industry.

The accumulation of inventories by consumers in the first half of last year, which accounted in part for the record-breaking production, has ended. Industry sources say that incoming orders appear to be sufficient to support current output which was running at 95 per cent of the increased capacity in the early part of February. Backlogs, however, are lower than a year ago.

Price and Profit Situation

The dip in production, as expressed in percentage of capacity, may mean a smaller margin of profit on each dollar of sales than in the first half

Statistical Data on Leading Paper Companies

	Net Sales 1955 (Millions)	Net Sales 1st 9 mos. 1956 (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1st 9 mos. 1956 %	Earned Per Share 1955	Earned Per Share 1st 9 mos. 1956	Dividend Per Share 1955	Dividend Per Share 1956	Price Range 1956-1957	Recent Price	Div. Yield
Champion Paper & Fibre	$154.2[1]	$ 84.7[2]	8.4%[1]	8.7%[2]	$2.87[1]	$1.62[2]	$1.00	$1.15	45 -33	36	3.1%
Container Corp. of Amer.	215.5	208.9	7.2	6.5	1.52	1.31	.75	.81	23¾-17⅞	18	4.5
Crown Zellerbach	414.0	343.9	10.6	10.8	2.14	2.64	1.53	1.80	69⅞-50⅛	52	3.4
Dixie Cup	49.2	43.1	7.8	8.3	4.39	4.03	1.80	1.90	60½-48½	49	3.8
Fibreboard Paper Products	122.7[3]	94.8	4.7[3]	4.7	3.78[3]	2.93	.25	1.05	43 -29½	30	3.5
Great Northern Paper	55.6	51.3	8.9	9.2	4.46	4.34	3.00	3.00	108½-79	82	3.6
International Paper	796.4	648.6	10.4	9.5	7.82	5.58	3.00[7]	3.00[7]	144½-98½	101	2.9
Kimberly-Clark Corp.	253.2[4]	139.5[2]	8.5[4]	8.0[2]	2.61[4]	1.44[2]	1.72[7]	1.80	58⅜-40	42	4.2
Lily-Tulip Cup	63.0	55.8	8.4	8.9	3.40	3.18	1.50	1.60	64 -49	50	3.2
Marathon Corp.	135.1	152.8[6]	6.8	5.9[6]	2.51	2.53[6]	1.25	1.40	48¼-29¼	30	4.6
Mead Corp.	150.5	126.3	7.0	7.4	3.15	2.76	1.05[7]	1.35[7]	41½-31¾	35	3.8
Minn. & Ontario Paper	73.1	59.6	10.1	9.9	2.87	2.31	1.20	1.40	42¼-30¼	32	4.3
Oxford Paper	56.4	46.1	7.3	7.2	4.76	3.91	1.45	1.85	51¾-35	40	4.6
Rayonier	142.5	106.0	11.1	10.4	2.87	2.10	1.08	1.40	44⅞-28¼	30	4.6
St. Regis Paper	257.0	247.8	7.4	6.9	2.95	2.41	1.80	1.90	60⅜-40⅝	43	4.4
Scott Paper	246.6	200.0	8.6	8.4	2.65	2.05	1.80	1.85	75½-57¼	59	3.1
Sutherland Paper	57.3	49.6	6.1	6.0	3.30	2.80	2.00	2.00	52½-35½	36	5.5
Union Bag-Camp Paper Corp.	165.5[5]	157.0[5]	10.8[5]	13.3[5]	2.68	2.33	1.33	1.50	47½-31½	34	4.4
West Virg. Pulp & Paper	176.2	187.6[6]	8.9	8.7[6]	3.08	3.19[6]	1.40	1.55	63 -42	42	3.6

[1]—Year ended 3-31-56.
[2]—6 months.
[3]—Pro-Forma Consol. Ins. Acc't.
[4]—Year ended 4-30-56.
[5]—Estimated for combined companies.
[6]—Year ended 10-31-56.
[7]—Plus stock.

Champion Paper & Fibre: Earnings for fiscal year to March 31, 1957 expected to show a moderate increase. Expansion program points to long term growth. B1

Container Corporation: Largest maker of paperboard products, may find competition keen in 1957. Last year's net estimated around $1.73 a share. B1

Crown Zellerbach: New kraft paper and board mill will contribute to profit in 1957. Proposed jointly owned plant with Time, Inc., means important new customer. Nation-wide growth planned by this second largest paper producer. Net profit last year around $3.50 a share. A1

Dixie Cup: Despite greater competition, earnings in 1957 are expected to compare favorably with estimated net, around $4.65 a share of 1956. A1

Fibreboard Products: Year's net estimated at $3.85. Has large debt, and big investment program, but operates in favorable Pacific Coast area. C1

Great Northern Paper: Recent price boost of $4 a ton effective March 1, should aid second quarter earnings. Should equal or exceed indicated 1957 net of $5.60 a share. B1

International Paper: Consolidated report, including Long-Bell Lumber, should show 1956 results not much changed from 1955 net of $7.54 a share. Second half net hit by start-up costs, etc. Largest producer, has well-diversified line, strong finances. A2

Kimberly-Clark: Net for six months ended Oct. 31 showed only slight gain. Specialty products should hold up well in any recession. A2

Lily-Tulip: Net income expected to show a moderate increase in 1956. New plastic package subsidiary still in red, growth prospects good. A1

Marathon: Fiscal 1956 showed gain of only 2 cents a share from 1955. Big expansion program may limit dividend boost. B2

Mead Corp.: Steady growth in earnings culminated in stock split last year. B1

Minnesota & Ontario Paper: Heavy expansion program may postpone dividend increase, despite low pay-out. Earnings in line with industry trend. B1

Oxford Paper: Large maker of book paper, should show favorable growth. Sales and net higher last year. Earnings this year should make favorable comparison with 1957. B1

Rayonier: Net profit dipped last year to $2.65 a share, against $2.87 a share reflects reduced demand for pulp in rayon, etc. Has excellent growth record. B3

St. Regis: Undaunted by dip in industry rate of production, company is projecting rise in 1957 net to $4 a share, against $3.15 in 1956 and $2.95 in 1955. New Canadian mill should aid 1957 net. B1

Scott Paper: Excellent long term growth gives high ranking to this company, a leader in paper specialties. A1

Sutherland: Large maker of folding boxes may be hit harder than well diversified producers, due to slump in demand in recent months. B2

Union Bag-Camp: Important in kraft paper and board field, as well as in rapidly growing field of multi-wall bags. B1

West Virginia Pulp & Paper: Earnings for fiscal year ended Oct. 31 showed gain of only few cents per share, owing to strike, which cost about 25 cents a share. Low-cost producer. A1

Ratings: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

of 1956. For this year as a whole, producers believe that operations should not go below 90 per cent of capacity.

This dip from the 100 per cent level of a year ago will reflect the adding of a substantial amount of new capacity, as well as the ending of inventory accumulation. The reduced production level has been accomplished in most cases by a shift from a seven day week to a six day week in the plants. In short, the rapid gain in capacity has temporarily outrun the steady rise in paper consumption. There is no sign as yet of a buyers' strike, or of any lack of stability in the paper price structure.

But as long as the supply of paper remains a little more than equal to the demand, it may be more difficult to pass along price increases to the consumer. At best, the industry may be able to achieve no more than selective price rises this year. But as long as it can continue to get some price relief, and demand holds at current levels, earnings of the leading paper companies should hold close to 1956 levels in most cases.

The rapid growth of earnings and sales, which captured the imagination of speculators is out of the picture, although it may return on a pick-up in our economy. Paper has not surrendered its position as a growth industry, merely because it has entered a period of consolidation and slow down in expansion of capacity. Over the postwar years, paper ranked third in rapidity of growth among all American industries.

The ability of the industry to obtain higher prices this year will vary from product-to-product. In newsprint, for example, a price rise of $4 a ton has already been accomplished recently with no difficulty. A price rise by one newsprint company is usually followed by other producers.

In paperboard, where inventories have risen recently, and where non-integrated converters are in competition with larger companies, it may however, be more difficult to increase prices because operations are well below capacity levels.

The price problem will come to a head between May and July, when the paper makers' union will receive an automatic wage boost of about 5 per cent, under the two year contract. During 1956, despite selective price rises on paper, competition made it necessary for paper producers to absorb part of cost increases and the situation will certainly be no better this year.

Earnings reports of some paper producers for 1956 have already made their appearance. These show the combined effect of a lower operating rate and of cost absorption during the second half of 1956. In this period, earnings have failed to keep pace with the record-breaking level of the first half, and in some cases, the profit per share has actually dipped below the level of the second half of 1955. But in general, earnings should hold pretty well.

In addition to the squeeze on profits resulting from the aforementioned causes, another factor has been the high starting-up costs on new plants, including delays in getting such equipment operating smoothly.

Paper Stocks Off Sharply from 1956 Highs

Under these circumstances, with shortages of paper suddenly ended, and with profits lower in some cases, it is not surprising that paper company stocks have lost ground in the security markets. Declines of 20 to 30 per cent from the highs of mid-1956 have occurred in most paper company stocks – a drop outrunning by a good margin that of the stock market as a whole.

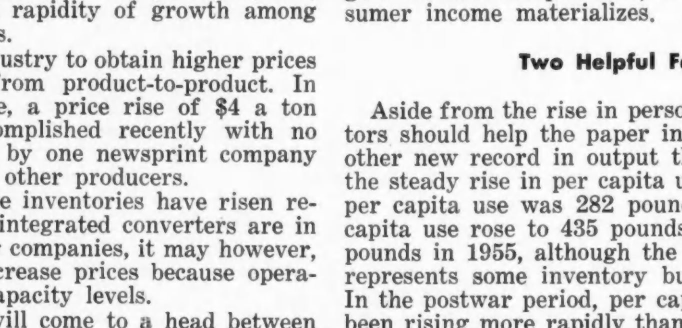
Much will depend however, on the trend of business as a whole. Personal income in the United States is estimated at $340 billions for 1957, compared with $325 billions for 1956. Normally, the consumption of paper–ruling out fluctuations in inventories–will vary with personal income.

On this basis, the paper industry is counting on output expressed in tons to rise again this year. As against production in 1956 of 31.5 million tons, or 5 per cent more than in 1955, John H. Vogel, economist of the American Paper & Pulp Association says there is a good chance that output this year will approximate 32.5 to 33 million tons, a gain of about 3 per cent, if the increase in consumer income materializes.

Two Helpful Factors

Aside from the rise in personal incomes, two factors should help the paper industry in setting another new record in output this year. The first is the steady rise in per capita use of paper. In 1945, per capita use was 282 pounds. During 1956, per capita use rose to 435 pounds, compared with 420 pounds in 1955, although the 1956 figure probably represents some inventory building by customers. In the postwar period, per capita use of paper has been rising more rapidly than gross national product as a whole, reflecting the use of paper in new markets and new applications, such as multiwall bags and new competitive packaging.

Another small boost in per capita use of paper is likely to take place this year, despite lack of outstanding strength in some areas of the economy where paper is used extensively, such as appliances and other consumer goods. When the economy enters a phase where consumer spending for nondurables and durables again rises rapidly, per capita use of paper should move up more quickly, but it does not appear that 1957 will witness such a trend.



Specific paper products will vary somewhat in their performance this year.

Newsprint producers, such as Great Northern Paper and International Paper, will (*Please turn to page* 658)

Liquor Companies Stepping Out?

By JOHN D. C. WELDON

Optimism, tempered somewhat by a "wait and see" attitude, has pervaded the liquor industry. The better feeling among the distillers is being nourished by two consecutive years of rising sales. This is in contrast to the years after peak 1946, which witnessed a decline through 1954, when only 190 million gallons were produced, 40 million under the record turnout. The improvement since then has amounted to 10 million gallons in 1955 and an additional 15 million gallons last year, bringing the volume for 1956 to approximately 215 million gallons.

Another heartening development has been the improved earnings of a number of the distillers so far in their respective fiscal years, reflecting in part increased operating economies and livelier markets. Encouraged by this development, the industry, for the first time in a number of years, put through price increases, effective last January 1, ranging from $2.25 to $2.50 a case of fifths. This action, however, cannot be looked upon as an unadulterated bullish factor. Offsetting the price boost to some extent are higher wage scales, increased materials costs and, no doubt, the expansion of sales promotion expenditures made in order to maintain sales at a satisfactory level, to say nothing of improving volume, in a highly competitive market.

The Tax Force-Out Law

Moreover, it is difficult to construe the recent price boosts that add as much as 30 or 35 cents to a fifth of distilled spirits as a sales stimulant. In fact, it is a moot question at this time whether this price increase is set on a firm foundation. One reason for this doubt is the tremendous quantities of whiskies which this year and in 1958 and 1959 will be reaching 8 years of age and which will be subject to the tax force-out law. This presents a problem of outstanding importance to those distillers with large stocks in bond as a result of the heavy production in the 1949-1951 period.

In the first of those years, production (measured in original proof gallons) amounted to 149 million gallons. By 1950, the rate of production jumped to almost 199 million gallons and in 1951 to more than 205.5 million gallons. These increases in the two latter years reflected fear that in the event of an all-out war, the Government would clamp rigid restrictions on production of distilled spirits for beverage consumption. These fears proved unfounded

although at the time, statements by government officials indicated the imminence of such restrictions. Nevertheless, these huge quantities of whiskey, allowing for normal evaporation while in storage, will reach the 8-year limitation this year and in each of the next two years, respectively.

Under the law as it now stands, owners of these inventories can, to avoid tax payments; (1) send their bonded whiskies into export channels; (2) redistill, which would mean an almost total loss of the value of these whiskies; or (3) in lieu of either one of these actions, "dump" their products on the market at drastically cut prices.

In the event that large holders of bonded whiskies should elect to follow the latter course it would be obvious that price increases now in effect would go by the boards. Not only that, but there would be strong possibilities of some broad price-cutting on some established brands or the introduction of new brands as a subterfuge to price cutting.

In viewing the immediate outlook for the liquor industry, Schenley's president L. S. Rosenstiel, stated a short time ago that "the rising curve (of sales) should continue into the new year 'if the industry is given a reasonable atmosphere on legislative and regulatory policy'." Paramount in his thinking is the federal tax rate of $10.50 a gallon on distilled spirits and the tax force-out law, considered by him to be "grossly unfair burdens." Schenley has been a longtime foe of the tax force-out law, claiming it discriminates against the U. S. industry and is in favor of foreign distillers. In support of this, Schenley makes the statement that only the U. S., has a law that forces a distiller to remove spirits from bond at the end of 8 years whether or not he has a market. Every other country allows a distiller to keep his spirits in bond awaiting advantageous marketing conditions. However, there seems to be a difference of opinion in the industry regarding the 8-year tax force-out law, especially on the part of the Distilled Spirits Institute which not long ago appeared to advocate re-enactment of the 8-year bonded limitation.

An Immediate Cut in Excise Tax Not in the Cards

This, then, appears to be a controversial subject. However, the entire industry seems to be in accord on the need for a reduction in the federal excise tax which since 1951 has been increased from $9.00 to $10.50 a gallon. It should be of interest to note that this current high excise tax is in contrast with $1.10 a gallon in effect following repeal and $3 a gallon tax in 1942 prior to World War II increases. Although the distillers, without exception, are in agreement that the present rate of tax is discriminatory, destructive, and contrary to public interest, there appears to be little hope that there will be any immediate reduction.

Meanwhile, the distillers, encouraged by the upturn in sales over the last two years are, with due conservatism, confident that this improvement will be extended through the current year. It is expected that more aggressive merchandising and the rapid rise in vodka sales which contributed to last year's total volume will continue to be important contributors in 1957. However, it should be borne in mind that there is no smooth road ahead for all companies making up the industry.

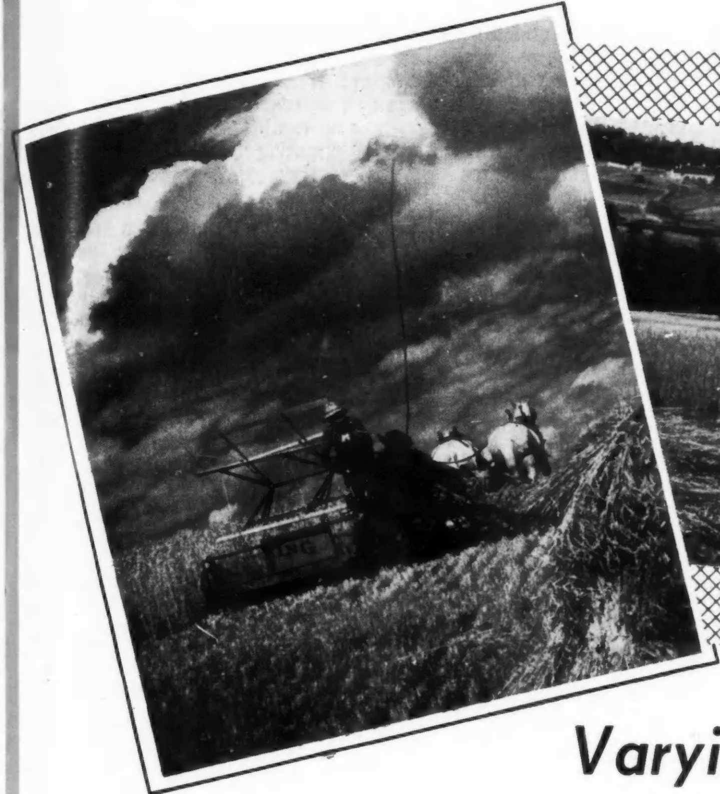
American Distilling Co., a relatively large distiller of bourbon whiskies, bottled straight or as blends, is also a producer of corn whiskey, gin and vodka. In addition, it also distributes two brands of Scotch whiskey in this country and an Irish whiskey throughout the world. The company, which finished its 1956 fiscal year last September 30, increased net sales (after excise taxes) to $17.3 million from $16.2 million for the previous year. After federal income tax, net income totaled a little more than $1.3 million equal to $3.07 a share compared with fiscal 1955 net income of $1.1 million, the equivalent of $2.62 a share of capital stock after adjusting for the 2-for-1 stock split made in April, 1956. The company got off to a good start in the current fiscal year. For the first quarter ended last December 31, net income was reported at $1.02 a share, up from 83 cents for the corresponding period of a year ago.

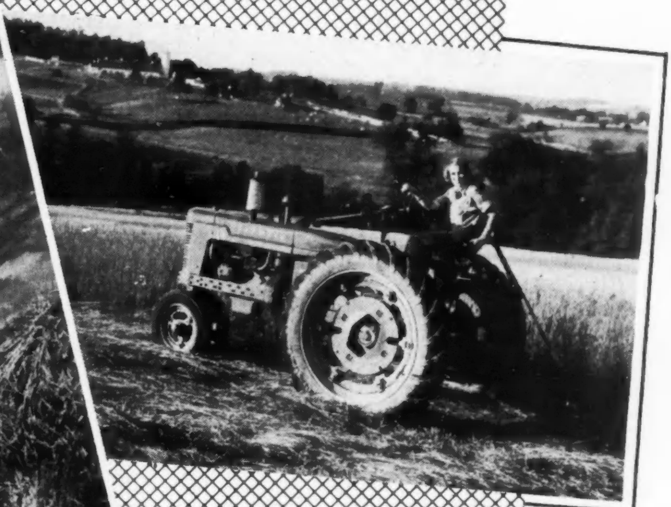
Brown-Forman Distillers which has achieved prominence as a leading producer of premium quality bottled-in-bond and straight Kentucky bourbon whiskies has achieved diversification through the production of feed products and solubles for pharmaceutical uses, as well as high-energy photographic chemicals. (*Please turn to page* 662)

Statistical Data on Leading Distillers

	Net Sales 1955 (Millions)	Net Sales 9 Mos. 1956 (Millions)	Net Profit Margin 1955	Net Profit Margin 9 Mos. 1956	Net Per Share 1955	Net Per Share 9 Mos. 1956	Dividend Per Share 1955	Dividend Per Share 1956	Price Range 1956-1957	Recent Price	Div. Yield
American Distilling	$ 71.4[1]	na	1.8%[1]	....	$3.07[1]	$1.02[2]	$1.00	$1.40	28¾-22⅝	28	5.0%
Brown Forman Distillers	77.7[3]	na	3.7[3]	....	2.79[3]	1.00	.80	.80[10]	24¾-16¾	17	4.5
Distillers Corp.—Seagrams	732.1[5]	na	3.1[5]	....	2.63[5]	1.27[6]	1.70	1.70	39½-29⅜	32	5.3
National Distillers	500.1	$543.1[7]	3.1	3.7%[7]	1.60	2.11[7]	1.00	1.00[10]	25¼-21⅛	21	4.7
Publicker Industries	146.5	na	[d]1.2	....	[d] .65	[d] .33	[11]	[11]	10⅝- 7¾	9	....
Schenley Indust.	404.1[8]	na	2.0[8]	....	1.93[8]	1.10[9]	1.00	1.00	22½-18	20	5.0
H. Walker-Good. & W.	370.9[8]	na	5.6[8]	....	7.30[8]	2.85[9]	4.00	4.00	75 -64	72	5.5

d—Deficit.
na—Not available.
1—Year ended 9-30-56.
2—Quar. ended 12-31-56.
3—Year ended 4-30-56.
4—6 months ended 10-31-56.
5—Year ended 7-31-56.
6—Quar. ended 10-31-56.
7—Full year 1956.
8—Year ended 8-31-56.
9—Quar. ended 11-30-56.
10—Plus stock.
11—Paid 5% stock.





Varying Outlook for INDIVIDUAL FARM EQUIPMENTS

By W. A. HODGES

Harbingers of Spring, the first robins, soon will be announcing approach of another planting season. Conditions appear more promising this year for a resurgence in demand for farm equipment. As a result, most stocks representing this depressed industry have some appeal on basis of the outlook for higher earnings. Representative issues have rebounded from lows of last year in anticipation of better results.

Optimism is based on promise of greater farm purchasing power than last year, on more realistic production and distribution schedules on part of manufacturers and adoption of operating economies. The more encouraging prospect for rural purchasing power finds support in wider acceptance of the soil bank program put into operation by the government at the behest of the Eisenhower Administration last year. As a consequence, marginal land is expected to be withdrawn from production and farmers are to be compensated for the sacrifice. In this manner agriculture is being subsidized to help bring about a more equitable alignment between industrial and farm incomes.

Farm equipment stocks have gradually lost prestige over the year as investment managers have tended to shy away from industries dependent in large measure on political favor. Ever since the war, when farm income boomed while industrial wages and prices were restrained by government controls, pressures have mounted in agricultural areas for government assistance to hold the advantages gained by farmers. Concurrently, inflationary forces in industry have accentuated the advance in costs of things which farmers buy at a time when farm product prices were either declining moderately or remaining about stationary. In recent years farm income had declined – almost 24 per cent from 1951 to 1955. The slight improvement experienced last year came too late to help sentiment sufficiently to stimulate buying of farm machinery.

Prejudices that have developed among investors against farm machinery stocks in the recent past have been based partly on a growing conviction that prosperity in rural areas may become increasingly dependent on subsidies from Washington and, in the absence of election campaigns, such relief may not always be forthcoming. This viewpoint overlooks an important fact, however, and that has

to do with the steady advance of scientific farming. In fact, agriculture gradually is moving into stronger and more efficient hands. This trend in due course should lead to a similar development among farm equipment manufacturers – resulting in consolidations and accretion of facilities in solid management units.

Some Encouraging Developments

Returning to an examination of current conditions, one finds encouragement for manufacturers this year by reason of two principal developments – a contraction in output of farm products and a tailoring of producing operations in industry to actual estimated needs. So far as planting is concerned, nature has taken a hand. Widespread drought in the Southwest indicates that thousands of acres that otherwise would have been cultivated this year must be abandoned or set aside for soil bank relief. This situation should go far toward allaying uneasiness over any prospective surplus in essential grains.

In addition, the Washington Administration has moved aggressively to dispose of surplus farm products in areas abroad which have suffered from economic disaster. Shipments of all kinds of supplies have been accelerated to disaster areas like Hungary and the Middle East. Excess supplies of many commodities in this country have been reduced to reasonable proportions. Thus the agricultural economy has been strengthened at its base in a manner that holds promise for an eventual restoration of the law of supply and demand.

President Eisenhower's recent survey of drought-stricken areas of the Southwest dramatized the need for continued assistance to that segment of the population dependent on crops and livestock. This survey may be expected to bolster the prospect for continuation of policies in Washington favorable to farmers. While a slump in agricultural output in barren areas would handicap business in the Southwest, the resulting stimulating effect on prices elsewhere would contribute to enlargement of total farm income.

Variations in Individual Company Results

In considering the farm implement group one must be impressed with the divergent results experienced by major companies representing the industry. Some have fared reasonably well in recent years as farm income has declined, while others have had difficulty in showing a profit on the business handled. In pondering the question of adding stocks in this group to one's portfolio, therefore, it is imperative to examine management factors and internal conditions of the several companies in the field in an effort to find an explanation for lack of uniformity in operating results.

It may be helpful then to comment briefly on several major companies, pointing out variations in policies and in financial results. Comments may indicate whether more detailed research would prove worthwhile. Space limitations prohibit complete descriptions of individual companies in this article. Before presenting observations on any one concern, however, it should be said that some companies are engaged almost wholly in manufacturing farm machinery, while others include equipment for the farms merely as a part of a much larger operation involving production of numerous kinds of machinery. In the latter case it could be argued that adverse results in agricultural equipment might have been balanced by especially satisfactory conditions in other divisions.

As an illustration of what has just been said, let us take a look at *International Harvester*, ranked as the leading factor in the farm machinery group. Measured by sales, the company overshadows its competitors by a wide margin, as may be observed in the accompanying tabulation, which presents some interesting statistics. But farm implement sales accounted last year for only 33 per cent of total volume, while motor trucks contributed about 40 per cent of sales. Industrial power equipment brought in an additional 13 per cent in non-farm business. This company actually strengthened its competitive position in motor trucks by obtaining about 12½ per cent of total industry output, as compared with about 10½ per cent in 1955, indicating that profits for 1956 must have been sustained ($3.16 a share, against $3.60 in 1955) in large measure as a result of successful promotion of sales of highway trucks.

Although *Allis-Chalmers* generally is classified in the electrical machinery group, actually farm equipment constitutes an important part of shipments. The company probably ranks third in volume of sales to the agricultural market even though the company's line of farm equipment is by no means complete. The consolidation of Gleaner Harvester a couple of years ago added to emphasis on farm appliances. With a pickup in shipments to the electrical apparatus market last year, volume is estimated to have climbed to a record high of about $575 million. Margins suffered, however, and net profit probably covered the $2 annual dividend requirement by a comparatively narrow margin. The outlook is encouraging for better results this year. If progress is achieved early in the next few months, confidence in the dividend should be restored.

In the case of *Caterpillar Tractor*, which has become the world's largest producer of earth moving equipment – such as crawler tractors and motor graders – agricultural machinery gradually has become less important as a contributor to sales, but the company often is regarded as a representative of the farm machinery group. The fact that sales and net profit mounted so handsomely in 1956 may be attributed chiefly to the favorable conditions prevailing in heavy construction activities and to acceleration of the highway building program. Net profit for the year just ended evidently gained some 50 per cent or more over the $4.04 a share of 1955, a far better showing than could have been envisaged in farm machinery business.

Other Companies Diversifying

Unlike its major competitors, *Deere & Co.*, depends almost exclusively on agricultural purchasing power. Although the company has sought to diversify operations to some extent through construction and operation of a (*Please turn to page* 666)

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American Steel Foundries

"I have been a subscriber to your valued magazine for a good many years and would appreciate your reporting recent operations of American Steel Foundries."

C. L., Washington, D. C.

American Steel Foundries is a leading manufacturer of railroad equipment parts, including car wheels, trucks, couplings, springs, etc. It also makes steel castings for dredges, road and mining machinery, rolling and stamp mills, etc.

For the fiscal year ended September 30, 1956, American Steel Foundries had the largest earnings in its history. Net income amounted to $8,370,614 on sales of $117,130,270. This compares with net income of $3,770,371 on sales of $80,664,461 in the 1955 fiscal year. Net income in 1956 was equal to $6.85 per share on the 1,222,817 shares outstanding at the year end as compared to $3.17 per share in 1955 on the 1,190,812 shares outstanding on September 30, 1955.

Cash dividends aggregating $2.40 per share were declared and paid in fiscal 1956. In addition, a 5% stock dividend was declared payable on October 19, 1956 to stockholders of record as of the close of business on September 28, 1956. In fiscal 1955, cash dividends of $2.00 per share were paid.

The substantial increase in earnings in the past year was attributable to a more satisfactory volume of shipments in nearly all product lines. Earnings from diversification steps taken since World War II were larger than in any previous year. Stability and growth of earnings from these sources, according to the company, are expected to continue. Management is directing its efforts toward further sound diversification.

Earnings in the quarter ending September 30, 1956 were adversely affected by the strike in the basic steel industry. Some of the company's delivery schedules were set back by customers as a result of their inability to secure basic steel products. Most of the deferred shipments were made in the final 1956 quarter.

Unfilled orders amounted to $62,000,000 at September 30, 1956 as compared to $40,000,000 at September 30, 1955. The backlog increased rapidly in the first nine months of the fiscal year. However, the backlog at the year-end was only slightly higher than at June 30, 1956.

A quarterly dividend of 60¢ per share was paid on December 14, 1956.

For the quarter ending December 31, 1956, sales were $28,662,369, and net profit came to $1,718,867, equal to $1.34 per share. In the last quarter of 1955, sales were $27,153,989, and net profit was $1,852,090, or $1.47 per share.

Outboard Marine Corporation

"One of the stocks recommended in your "For Profit and Income" section quite some time ago at a much lower price, was Outboard Marine & Manufacturing Company, now called Outboard Marine Corp. Please report recent sales volume, earnings and dividends."

W. J., Chester, Pa.

Outboard Marine Corporation is a prominent producer of outboard motors sold under the names of Johnson, Evinrude and Buccaneer. It also makes private brand motors for chain and mail-order houses; motor replacement parts and marine accessories; and, through a division, rotary power lawn mowers and parts.

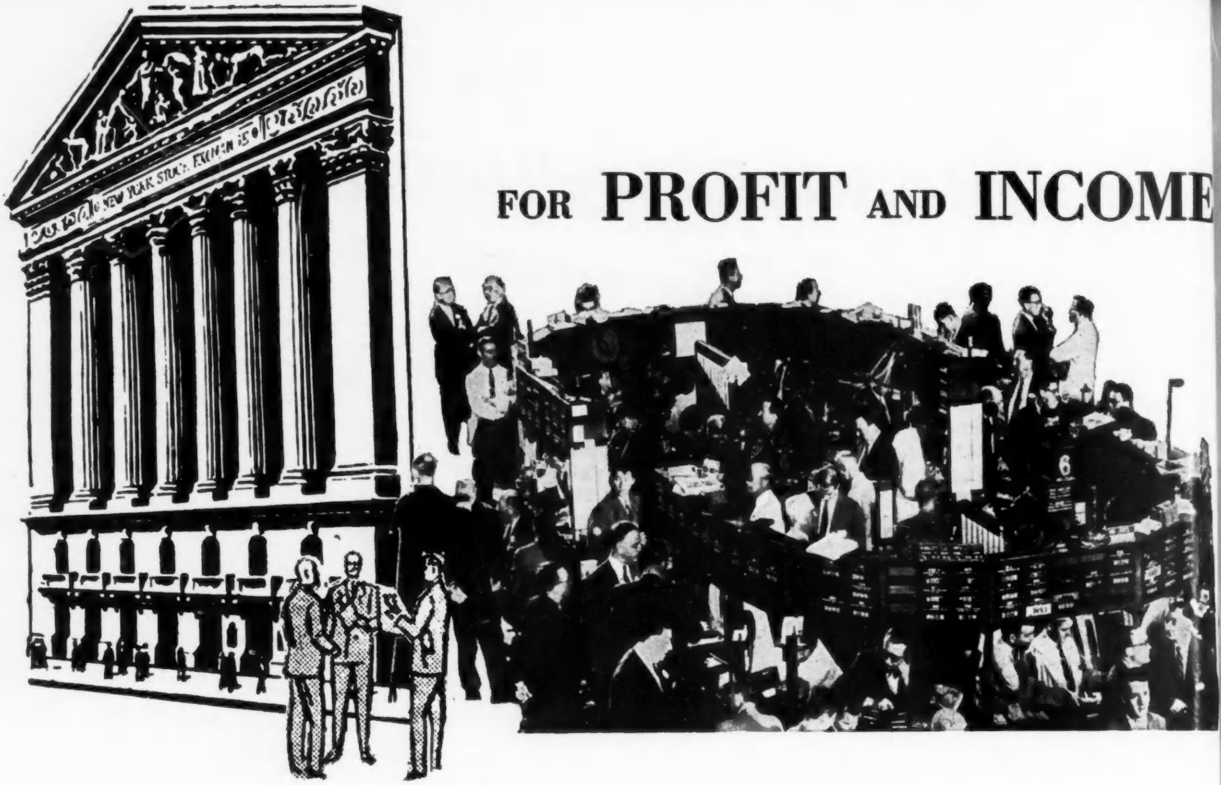
Consolidated net sales for the fiscal year ended September 30, 1956 totaled $122,044,842, an increase of $36,189,145 over the previous year. Net earnings were $12,097,690, in 1956, compared with $7,863,699 in 1955. The 1956 earnings were equivalent to $5.06 per share outstanding at September 30, 1956, as compared with $3.29 per share in 1955 calculated on the basis of a like number of shares.

Dividends in 1956 totaled $1.80 per share compared with $1.30 in 1955. Latest quarterly dividend is 50 cents per share payable February 25.

For the three months to December 31, 1956 net sales were $31,739,625, and net profit $3,210,960, equal to $1.34 per share based on 2,392,503 shares outstanding. This compares with same quarter in 1955 when sales were $23,812,020, net profit $1,917,753, equal to 90 cents per share, based on 2,138,658 shares outstanding. The outlook over coming months appears favorable.

END

FOR PROFIT AND INCOME



What's Good?

The difficult business of weighing prospects for general business activity, total corporate earnings and dividends is not this department's function. We are principally concerned with individual stocks and stock groups. Although the industrial average did little either way, on balance, in 1956, a sizable number of stocks and stock groups "went to town", enabling us to make a fair number of profitable recommendations on these pages. It is different so far in 1957, and at present. Stocks that we feel any particular urge to recommend for new buying are distressingly few in number – and that fact is not a good omen for the market. What's good? Answer: cash in the bank or in short-term Treasury obligations seems to us to have more appeal right now than the great majority of industrial or rail stocks.

Alternative

If you are not willing to hold idle cash or to accept a return around 3.2% on short-term Treasury issues for temporary purposes, you have the following alternatives within the limits of conservative portfolio management: (1) Buy corporate bonds, preferably selected new offerings yielding 4% or more; or (2), if tax exemption is a consideration, buy selected new issues of municipal bonds, which are available at gross yields ranging from 3.2% to around 4% in most cases; or (3) buy sound preferred stocks at yields of 4.5% to 5%; or (4) buy selected electric utility or natural gas stocks, giving preference to those with growth potentials which are not excessively priced. A sizable number of the latter have heretofore been recommended here, and they are faring considerably better than the general run of industrials or rails. In a number of cases, yields of 4% to around 5% are still available at present market levels. The natural gas group recently attained a new bull-market high.

Response

Individual stocks have recently been responding more vigorously to bad news than to good. That does not prove that we are in a bear market, but it certainly reflects a marked change in psychology. In short, more dark than rose-colored glasses are now being worn. For example, dividend boosts by U. S. Steel, Bethlehem Steel, Standard Oil (New Jersey) and Ex-Cell-O (plus a 2-for-1 split of the last-named) were largely ignored. But dividend cuts by Textron and United Air Lines dropped these two stocks sharply to new 1956-1957 lows.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1956	1955
Sun Oil Co.	Year Dec. 31	$5.22	$4.72
Atlantic Refining	Year Dec. 31	5.11	4.25
Air Reduction Co.	Year Dec. 31	4.32	3.54
Daystrom, Inc.	Quar. Dec. 31	.81	.35
National Distillers Prod.	Quar. Dec. 31	2.11	1.60
Ashland Oil & Refining	Quar. Dec. 31	.69	.58
Carpenter Steel Co.	Quar. Dec. 31	2.04	1.58
Norfolk & Western Rwy.	Year Dec. 31	7.39	6.70
Pittsburgh Metallurgical	6 mos. Dec. 31	3.18	2.86
McKesson & Robbins, Inc.	Quar. Dec. 31	1.64	1.48

Machinery

Moderate 1957 gains appear likely in shipments of machine tools and in earnings of makers. But the stocks, following sharp earlier advances, may be "through". They are mostly down from their highs but still "way up there". So there are tempting profits to be taken – and a declining new-orders trend provides reason for profit taking. On the other hand some makers of heavy equipment for the utility, steel and other key industries have order backlogs equal to two-to-three years of sales at the 1956 rate, and are in line for sharp 1957-1958 earnings gains. Some examples and their current prices are: Babcock & Wilcox 43, Combustion Engineering 29, Foster Wheeler 38 and Mesta Machine 60.

Coppers

In economic theory, a price cut is presumed to stimulate demand. That might be so for some consumer goods; but the opposite is true for copper and any other material sold to fabricators or processors rather than retail consumers. Domestic copper was cut from a peak of 45 cents a pound to 36 cents some months ago, and to 34 cents recently. The cut to 36 cents did not stimulate buying. Neither will the smaller cut to 34 cents. Buying will be hand-to-mouth – to guard against inventory losses – so long as the supply-demand situation points either to further pressure on prices or to maintenance of the present 34 cent price at best. There will be active forward buying only when conditions point to an uptrend – not just a minor rebound – in copper prices. Such conditions are not foreseeable. We continue to think that copper stocks are vulnerable to further decline.

Box Score

The dividend "box score" has become less favorable on year-to-year comparisons. Total payments in December were lower than a year earlier. Probably the same was true for January, although the figures are not yet in. Pointing to that conclusion, only 79 companies increased dividends in January, against 111 a year ago, while 99 paid extras, against 102 a year ago; and 5 reduced payments, compared with only 2 in January, 1956.

Autos

Total automobile sales are reported to be disappointing. However, two qualifications are in order. First, it is still too early to judge prospects for spring and summer demand at this seasonally-dull period. Second, the year-to-year lag so far is accounted for by General Motors, which stood pat (except for "face-lifting") on its biggest-selling model (Chevrolet) and some other models. The evidence to date strongly suggests that 1957 will be a year of material gain in competitive position by Ford. Some gain is possible, but apparently less assured, for Chrysler. At present Ford is the best-acting of these three stocks, General Motors the worst. But a year is not forever. No doubt GM will "shoot the works" on the 1958 Chevy to be brought out next autumn. As to just how, we have not the slightest idea. The game of lower and lower, wider and wider, longer and longer, and more and more horsepower ought to be pretty well played out by now. Maybe GM has already dreamed up "something different."

Boom

Still running strong, the boomiest boom that we know of right now is in a rather small industry: boats and equipment related thereto. The crowds and the orders placed at the recent boat show in New York City provided one measure of this boom. Here is another one: in the three months ended December 31, first quarter of its fiscal year, Outboard Marine had the following year-to-year gains – sales about 33%, net income over 65%. Last year (year ended Sept. 30) profit gained nearly 38% to $5.06 a share. Chances now seem good for equalling that rate of gain this year, and it might even be bettered – in other words, earnings around $7 a share or more. Recommended here from time to time at various lower levels, the stock is currently at 73¾, off 8 points from its recent high. Would not take much more easing to put it around 10 times earnings. We continue to think the stock is a better buy on dips than a sale on upswings; and, since the market has the blues, it could dip sooner than earnings might seem to suggest.

January

The first 1957 month brought moderate net declines by the industrial and rail lists. The principal stock groups that gained materially on the month were electric and gas utilities, and sugars. The latter turned down, however, before the end of the month and appear to be through with their recent boomlet. Among the earlier leaders, there were significant declines in machine tool and steel stocks, both reflecting impaired technical positions at their highs and unpromising current trends of new orders being booked in these industries. Others falling materially more than the market in January were air lines, chemicals, coppers, electrical equipment, and tires. On the whole, capital-goods groups fell more than consumer-goods groups, but the former remain far more advanced than the latter on a comparison with prewar (1939-1940) levels.

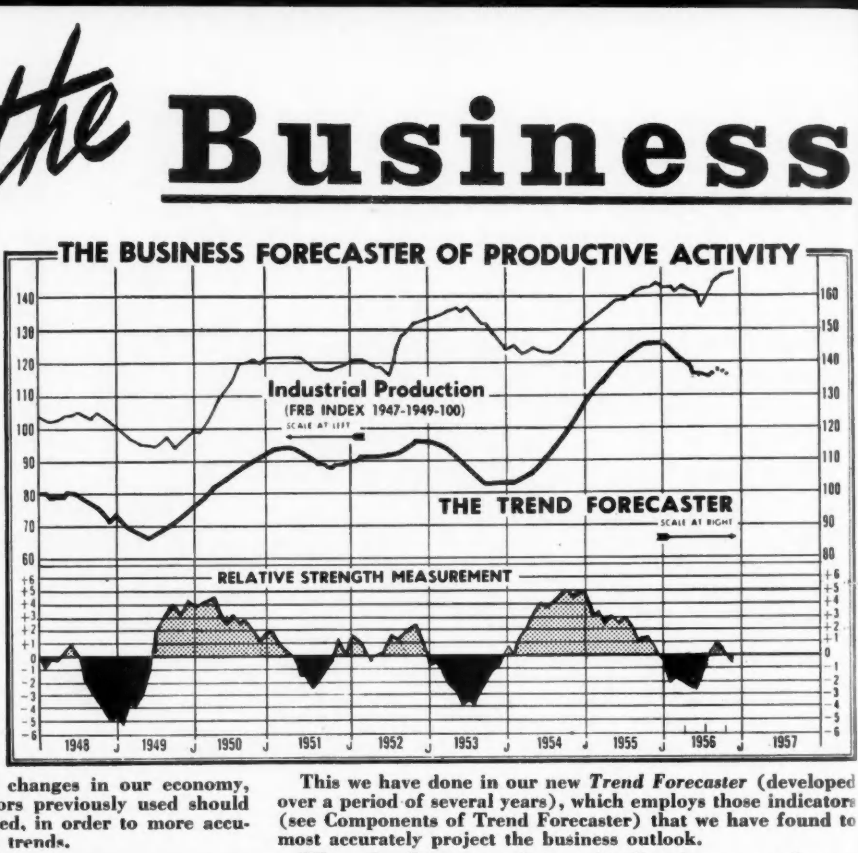
Sound Buys

Among income-and-gradual-growth stocks, here are some recommended current choices: Columbia Gas at 17½, Central & South West at 36¼, Equitable Gas at 31½, Middle South Utilities at 33½, Southwestern Public Service at 27, and Union Tank Car at 29. END

DECREASES SHOWN IN RECENT EARNINGS REPORTS

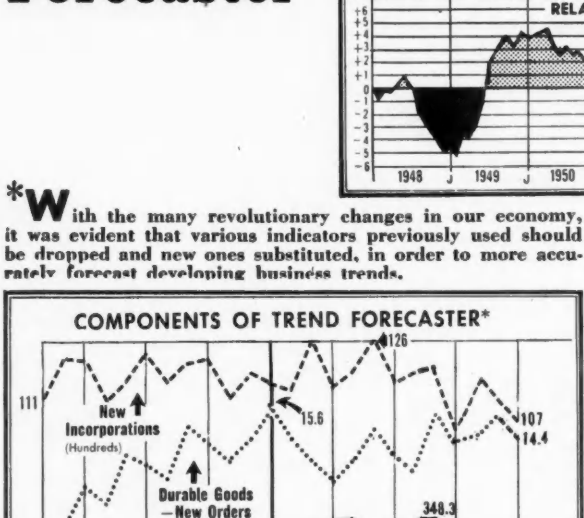
		1956	1955
Chicago, Milw., St. P. & P.	Year Dec. 31	$2.78	$3.27
Libbey-Owens-Ford Glass	Year Dec. 31	5.59	6.93
Pacific Mills	Quar. Dec. 29	.48	.63
United Merchants & Mfg.	6 mos. Dec. 31	.96	1.51
Allied Kid Co.	6 mos. Dec. 31	1.65	2.14
American Steel Foundries	Quar. Dec. 31	1.34	1.47
Jones & Loughlin Steel	Quar. Dec. 31	1.90	2.26
Amer. Agriculture Chem. Co.	6 mos. Dec. 31	.64	.88
Rotary Electrical Steel	Year Dec. 31	2.97	5.41
Allied Chemical & Dye	Year Dec. 31	4.88	5.45

the Business



Business Trend Forecaster*

***W**ith the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



*—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The mixed behavior of the component series of The **Trend Forecaster** has evidently continued through the end of 1956 and into early 1957. In recent months, commodity prices have peaked and declined; new incorporations have slid off; business failures (inverted) have sagged. Stock prices and average hours worked have fluctuated erratically, as have housing starts. Durable goods orders rose in October and November but fell back sharply in December. Residential contract awards rose during much of the fourth quarter, but preliminary indications for December and January are not favorable.

The **Relative Strength Measurement,** which summarizes the behavior of these indicators, reached a peak in the low positive range in September, but has evidently been in a steady decline ever since, and is now in a negative area. Reflecting this reversal in the **Relative Strength Measurement,** The **Trend Forecaster** passed through an unimpressive peak in October, and is now declining.

The dimensions of these changes are all small. At the moment, they point to a gradual weakening of the general business trend in the months immediately ahead. If the present decline in The **Forecaster** should continue in the next two months, it would approach a negative range associated, in the past, with impending recession.

Analyst

CONCLUSIONS IN BRIEF

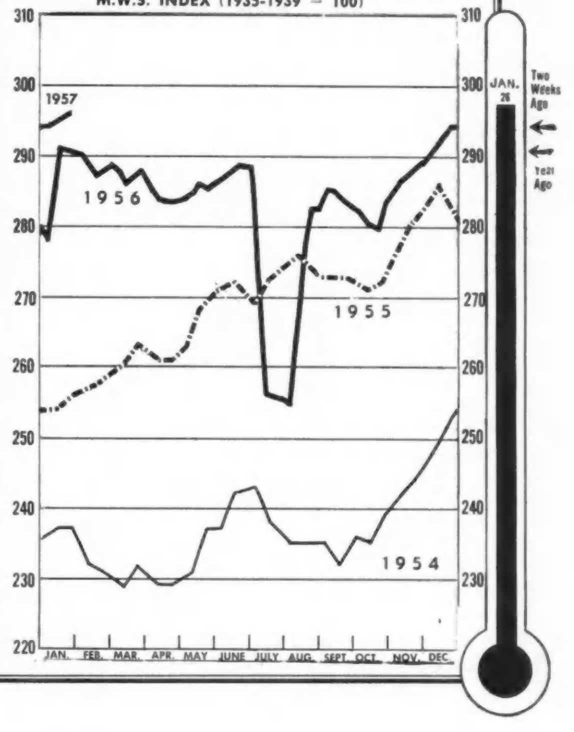
INDUSTRY — The production trend is now stable. Auto output and machinery output, which pushed total activity up in the fourth quarter, have about exhausted their momentum. Only important gains are now in aircraft, shipbuilding, instruments — all related to defense spending.

TRADE — Retail volume is continuing at about the December rate, with some improvement in automobile deliveries offset by weakness in other durables. Department store sales, after taking account of seasonal influences, are running somewhat below their fourth-quarter rate.

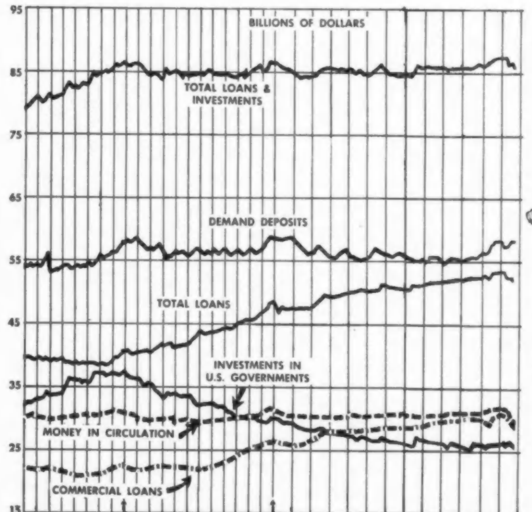
MONEY AND CREDIT — is easing seasonally; in fact, a little more than seasonally. This is reflected in the rapid net payback of business loans; total business loans outstanding are going down about twice as fast as a year ago. It is also reflected in the January recovery in the bond market. There is a prospect of considerably more easing, but not until after March tax dates.

COMMODITIES — Sensitive commodity price indexes have declined sharply in the recent past, owing principally to the pronounced break in scrap steel. Producers have dropped their price on copper, and even aluminum is feeling a little price pressure. The price outlook: neutral for the next three months.

BUSINESS ACTIVITY
M.W.S. INDEX (1935-1939 = 100)



MONEY AND BANK CREDIT
[WEEKLY REPORTING MEMBER BANKS]



The business trend in the first half of 1957 can now be forecast with considerably more accuracy than was possible even two months ago. In inventories, in capital goods demand, in residential housing, even in automobiles, the prospective trend is now much more definable.

The half-year is shaping up as a plateau, strikingly lacking in any dominant trend. The weaknesses of 1956 — automobiles and residential building — have reached at least a temporary resting place. And the strengths of 1956 — nonresidential construction and machinery production — have clearly lost their upward momentum.

It is now reasonable to count on something like a 6.2 million annual rate of new-car sales in the first half of 1957, and a rate of new housing starts of about 1.0 million. Both of these figures are substantially below 1955; the housing starts figure is even well below average experience in 1956; the auto figure is modestly higher than the average sales rate in 1956.

On the other side of the fence, the rate of capital outlays for plant and equipment, judging from the several surveys now available, should stay around $39 billion — very much higher than the 1955 rate, and a little more than 10% above the rate in 1956.

While the outlook for the second half remains obscure, it is already clear that two sets of conditions will determine it. In the first half of 1957 the balance will be struck at a level that is still pouring goods into business inventories at a rate of about $5 billion per year. That rate is too high to be sustainable for more than two quarters, at the most, and by mid-year inventory will be a definitely bearish influence on general *(Please turn to following page)*

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Dec.	147	146	144
Durable Goods Mfr.	1947-'9-100	Dec.	166	165	161
Nondurable Goods Mfr.	1947-'9-100	Dec.	131	129	130
Mining	1947-'9-100	Dec.	130	130	129
RETAIL SALES*	$ Billions	Nov.	16.4	16.1	15.8
Durable Goods	$ Billions	Nov.	5.7	5.5	5.7
Nondurable Goods	$ Billions	Nov.	10.7	10.6	10.1
Dep't Store Sales	1947-'9-100	Nov.	129	122	122
MANUFACTURERS'					
New Orders—Total*	$ Billions	Dec.	28.8	29.4	28.0
Durable Goods	$ Billions	Dec.	14.4	15.1	14.2
Nondurable Goods	$ Billions	Dec.	14.3	14.3	13.8
Shipments*	$ Billions	Dec.	28.7	28.7	28.0
Durable Goods	$ Billions	Dec.	14.4	14.3	14.2
Nondurable Goods	$ Billions	Dec.	14.3	14.4	13.8
BUSINESS INVENTORIES, END MO.*	$ Billions	Nov.	87.9	87.2	81.6
Manufacturers'	$ Billions	Nov.	51.3	50.8	45.7
Wholesalers'	$ Billions	Nov.	13.2	13.1	12.3
Retailers'	$ Billions	Nov.	23.5	23.3	23.6
Dept. Store Stocks	1947-'9-100	Nov.	143	142	134
CONSTRUCTION, TOTAL	$ Billions	Dec.	3.4	3.8	3.3
Private	$ Billions	Dec.	2.5	2.7	2.4
Residential	$ Billions	Dec.	1.2	1.3	1.3
All Other	$ Billions	Dec.	1.3	1.4	1.1
Housing Starts*—a	Thousands	Dec.	1,030	1,060	1,192
Contract Awards, Residential—b	$ Millions	Dec.	451	625	711
All Other—b	$ Millions	Dec.	1,125	1,065	1,210
EMPLOYMENT					
Total Civilian	Millions	Dec.	64.6	65.3	64.2
Non-Farm	Millions	Dec.	53.0	52.5	52.0
Government	Millions	Dec.	7.6	7.3	7.3
Trade	Millions	Dec.	12.1	11.5	11.8
Factory	Millions	Dec.	13.3	13.4	13.5
Hours Worked	Hours	Dec.	41.0	40.6	41.3
Hourly Earnings	Dollars	Dec.	2.05	2.03	1.93
Weekly Earnings	Dollars	Dec.	84.05	82.42	79.71
PERSONAL INCOME*	$ Billions	Nov.	333.6	332.5	314.5
Wages & Salaries	$ Billions	Nov.	231	230	217
Proprietors' Incomes	$ Billions	Nov.	52	52	50
Interest & Dividends	$ Billions	Nov.	30	30	28
Transfer Payments	$ Billions	Nov.	19	19	18
Farm Income	$ Billions	Nov.	16	16	15
CONSUMER PRICES	1947-'9-100	Dec.	118.0	117.8	114.7
Food	1947-'9-100	Dec.	112.9	112.9	109.5
Clothing	1947-'9-100	Dec.	107.0	107.0	104.7
Housing	1947-'9-100	Dec.	123.5	123.0	120.8
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Nov.	106.7	106.1	105.4
Bank Debits*—g	$ Billions	Nov.	78.8	78.7	72.9
Business Loans Outstanding—c	$ Billions	Nov.	29.9	29.7	25.3
Instalment Credit Extended*	$ Billions	Nov.	3.5	3.4	3.4
Instalment Credit Repaid*	$ Billions	Nov.	3.2	3.2	3.0
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Nov.	4.8	3.2	4.7
Budget Expenditures	$ Billions	Nov.	5.7	5.0	5.2
Defense Expenditures	$ Billions	Nov.	3.5	3.7	3.1
Surplus (Def) cum from 7/1	$ Billions	Nov.	(0.9)	(2.8)	(0.5)

PRESENT POSITION AND OUTLOOK

business. But at the same time, a new dominant strength may be emerging in the form of increased production and deliveries of defense equipment — particularly aircraft, missiles, instruments, electronic devices. And both roadbuilding and school building will be gearing up to higher levels. **The outlook for the last half is now a race: between swelling inventories, on the one hand, and rising orders and activity in defense and public works, on the other hand.**

* * *

PRICES — they are now in the grip of crosscurrents. The basic inflationary tendency imparted to prices by rising wage costs is certainly continuing, although not as rapidly as in past years. Distribution costs are also in an uptrend. And certain key materials — steel and alloys, among them — are still rising. **But there is much evidence of growing resistance to further advances in quotations at the wholesale level.** Witness the decline in rubber, copper and copper scrap, and the very pronounced break in steel scrap prices. Even aluminum, a product which has been virtually immune to price pressures almost throughout the postwar years, is having a little price trouble at the fringes of its market.

Looking back over the past year, one is impressed with how much of the inflation of that year was localized in those areas where business itself does the buying. By far the biggest increases were in heavy materials, components and supplies bought by purchasing agents; and in the machinery and buildings bought by manufacturing vice presidents and executive committees of corporations. There are now many signs that in all of these areas businessmen are sharpening pencils, and bargaining hard, and **sellers are learning that easy inflation of their prices is a thing of the past.**

* * *

STEEL — in this bellweather industry, supply is now hot on the heels of demand. This is owing in part to the very low purchase rate by automobile executives, who are playing the steel market very close to the vest; and partly owing to the curtailed operating rate in many appliance lines. Signs of the trend in steel: even though plate, structurals and oil-country goods are still in great demand, actual operating rates in the industry are now falling behind the scheduled operating rates announced in advance. **And, of course, the drop in steel scrap prices is a historic indicator of lower steel production to come.**

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1956 III Quarter	1956 II Quarter	1956 I Quarter	1955 III Quarter
GROSS NATIONAL PRODUCT	413.8	408.3	403.4	396.8
Personal Consumption	266.8	263.7	261.7	257.8
Private Domestic Invest.	65.1	64.2	63.1	62.3
Net Foreign Investment	1.7	1.7	0.1	0.2
Government Purchases	80.2	78.7	78.5	76.5
Federal	47.2	46.1	46.4	46.6
State & Local	33.0	32.6	32.1	29.9
PERSONAL INCOME	327.0	322.9	317.5	309.6
Tax & Nontax Payments	38.8	38.1	37.3	35.9
Disposable Income	288.2	284.9	280.2	273.8
Consumption Expenditures	266.8	263.7	261.7	257.8
Personal Saving—d	21.4	21.2	18.6	15.9
CORPORATE PRE-TAX PROFITS*	41.2	42.9	43.7	43.5
Corporate Taxes	20.8	21.7	22.1	22.0
Corporate Net Profit	20.4	21.3	21.6	21.5
Dividend Payments	12.3	12.2	11.8	11.0
Retained Earnings	8.1	34.5	32.8	29.7
PLANT & EQUIPMENT OUTLAYS	35.9	34.5	32.8	29.7

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Jan. 26	297.5	296.3	291.0
MWS Index—per capita*	1935-'9-100	Jan. 26	228.1	227.3	227.2
Steel Production	% of Capacity	Feb. 2	97.1	96.6	99.3
Auto Production	Thousands	Feb. 2	180	179	174
Paperboard Production	Thousand Tons	Jan. 26	283	279	297
Lumber Production	Thous. Board Ft.	Jan. 26	222	226	243
Electric Power Output*	1947-'49-100	Jan. 26	227.8	230.2	212.5
Freight Carloadings	Thousand Cars	Jan. 26	666	657	692
Engineering Constr. Awards	$ Millions	Jan. 31	407	222	533
Department Store Sales	1947-'9-100	Jan. 26	96	100	94
Demand Deposits—c	$ Billions	Jan. 23	58.3	58.5	58.7
Business Failures	Number	Jan. 24	258	278	284

PRESENT POSITION AND OUTLOOK

PROFITS AND DIVIDENDS — according to estimates of the Council of Economic Advisers, fourth-quarter profits for all corporations rose sharply above the third-quarter level to an annual rate (seasonally adjusted) of about $46 billion before taxes, and some $23 billion after taxes. The gain from the third quarter largely reflected the recovery of the steel industry, which had been hit by a costly strike in the third quarter, and the recovery of earnings in the automobile industry, which had undergone a third-quarter decline in output owing to model changeover. Moreover, almost $4 billion of the fourth-quarter earnings rate represented illusory inventory profit, arising because corporations charged themselves only book cost for materials consumed, rather than the true replacement cost of these materials.

For a better indicator of the squeeze on the corporate flow of funds, note that the seasonally adjusted rate of dividend payments declined in the fourth quarter, mainly because of an unusual dearth of year-end extras. **Across a broad front, the corporate earnings picture, while still satisfactory, is far from bright**; among many smaller corporations, rising costs and high taxes are compressing the flow of funds needed for growth, and borrowing the funds is now costly indeed.

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge, for 37 states. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau. (na)—Not available. (r)—Revised. (l)—First Quarter.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1956-'57 Range High	1956-'57 Range Low	1957 Jan. 25	1957 Feb. 1
300 Combined Average	352.4	315.9	333.7	331.0
4 Agricultural Implements	327.1	242.1	263.4	263.4
3 Air Cond. ('53 Cl.—100)	119.4	98.8	112.5	110.2
9 Aircraft ('27 Cl.—100)	1423.5	1064.6	1366.6	1338.1
7 Airlines ('27 Cl.—100)	1117.4	882.2	922.3	882.2L
4 Aluminum ('53 Cl.—100)	566.7	337.1	392.7	392.7
6 Amusements	172.3	144.1	159.2	160.7
9 Automobile Accessories	373.7	334.5	348.8	352.3
6 Automobiles	52.2	47.1	48.6	48.6
4 Baking ('26 Cl.—100)	28.7	25.5	26.6	27.3
3 Business Machines	1171.3	831.5	997.4	997.4
6 Chemicals	652.3	556.5	530.4	574.5
4 Coal Mining	25.1	19.2	24.9	25.1H
4 Communications	114.3	93.4	95.5	96.5
9 Construction	140.0	112.3	123.1	121.8
7 Containers	853.7	731.7	747.1	747.1
7 Copper Mining	361.3	274.1	289.4	274.1L
2 Dairy Products	122.3	105.9	105.9	107.0
6 Department Stores	93.7	80.1	82.6	82.6
5 Drugs-Eth. ('53 Cl.—100)	198.3	165.0	184.3	178.9
6 Elec. Eqp. ('53 Cl.—100)	228.6	178.9	224.0	221.8
2 Finanee Companies	613.7	530.3	546.9	546.9
6 Food Brands	306.1	266.4	274.8	277.5
3 Food Stores	176.9	157.2	158.8	158.8

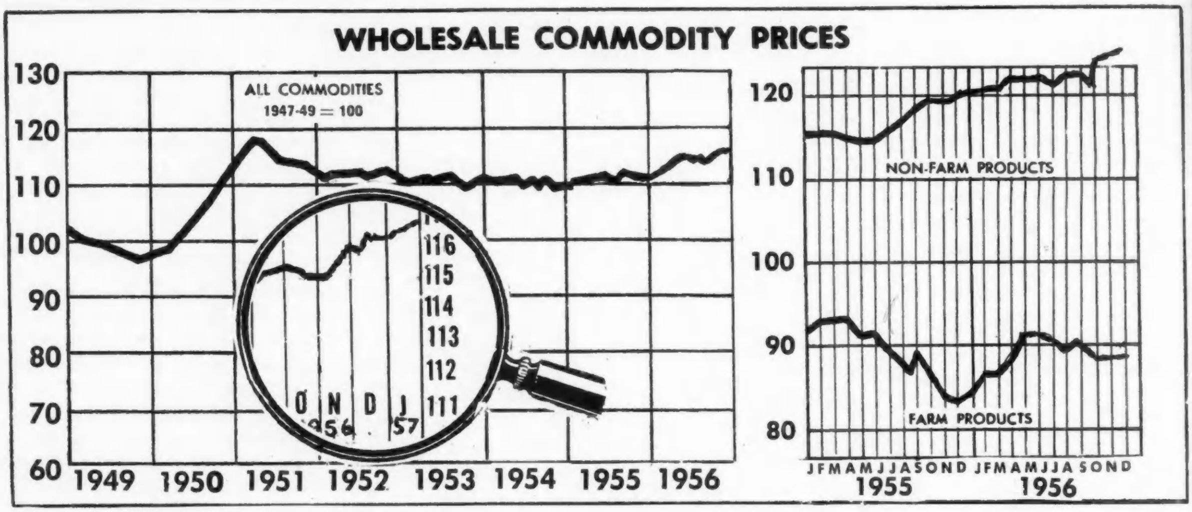
(Nov. 14, 1936 Cl.—100)	High	Low	1957 Jan. 25	1957 Feb. 1
100 High Priced Stocks	244.6	209.2	222.2	220.9
100 Low Priced Stocks	415.8	378.9	404.1	400.7
4 Gold Mining	882.7	637.9	719.6	693.2
4 Investment Trusts	173.1	150.8	173.1	169.9
3 Liquor ('27 Cl.—100)	1076.2	954.4	1014.9	995.0
9 Machinery	523.4	370.4	502.8	497.7
3 Mail Order	217.3	167.8	167.8	169.5
4 Meat Packing	170.7	127.7	137.0	134.2
5 Metal Fabr. ('53 Cl.—100)	213.2	183.3	186.9	185.0
10 Metals, Miscellaneous	464.9	383.1	404.7	400.7
4 Paper	1312.3	997.3	1008.1	997.7
22 Petroleum	872.3	675.8	790.8	782.6
21 Public Utilities	264.0	246.4	253.8	256.3
7 Railroad Equipment	95.1	84.3	87.9	86.1
20 Railroads	82.0	68.5	69.2	68.5L
3 Soft Drinks	544.8	423.1	458.4	462.7
12 Steel & Iron	393.0	283.8	349.8	345.8
4 Sugar	107.4	60.1	102.6	97.9
2 Sulphur	950.2	758.4	815.4	815.4
11 Television ('27 Cl.—100)	44.5	33.6	33.9	33.6
5 Textiles	184.4	137.3	142.9	137.3L
3 Tires & Rubber	201.0	169.6	169.6	169.6
5 Tobacco	96.7	85.3	89.6	89.6
2 Variety Stores	298.8	258.2	268.5	271.1
15 Unclassif'd ('49 Cl.—100)	164.2	144.8	158.3	155.3

H—New High for 1956-1957 L—New Low for 1956-1957

Trend of Commodities

SPOT MARKETS — Demand for sensitive commodities continued to contract in the last half of January. The decline in the Bureau of Labor Statistics' index of 22 leading commodities gathered speed, with the drop in the two weeks ending January 31, amounting to 1.8%. Metals were the weakest component of the index, losing 3.6%, while raw industrial materials gave up 1.3%. In the past year, many of the sensitive commodities making up this index, have failed to reflect the inflationary trtend evident in the more comprehensive indexes. Thus, the raw industrial material component, at the end of January, was 3.0% under a year ago, while metals were down 7.4%. This is in contrast to a 4.4% gain during the year, for Bureau's comprehensive weekly wholesale price index. This broad indicator usually lags several months behind the sensitive daily barometer. Recent weakness in the latter may well indicate that the general price level is near an important peak.

FUTURES MARKETS — Futures prices weakened during January, in line with declines in spot markets. The Dow-Jones Commodity Futures Index lost 2.94 points in the last two weeks of the month, to close at 158.69. At this level it was more than 4% under the 1956 peak, reached at the end of November. At the January 31 close, the index was back to levels of early August, 1956, thus having wiped out all the gains of late Summer and Fall. Both domestic and imported commodities were weak in the last two weeks of January, as businessmen continued to disgorge stocks built up last Fall.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Jan. 29	116.9	116.6	111.9	60.2
Farm Products	Jan. 29	89.4	89.0	84.1	51.0
Non-Farm Products	Jan. 29	125.2	124.9	120.4	67.0
22 Basic Commodities	Jan. 31	90.3	91.9	89.3	53.0
9 Foods	Jan. 31	82.1	84.0	76.4	46.5
13 Raw Ind'l. Materials	Jan. 31	96.3	97.6	99.2	58.3
5 Metals	Jan. 31	116.0	120.3	124.7	54.6
4 Textiles	Jan. 31	84.8	85.1	81.8	56.3

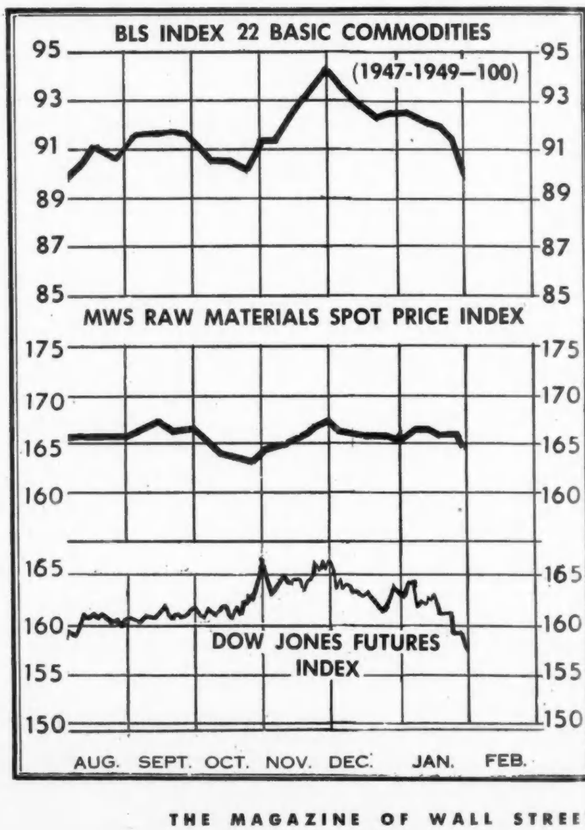
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1956	1955	1953	1951	1945	1941
High of Year	169.8	164.7	162.2	215.4	98.9	85.7
Low of Year	163.1	153.6	147.9	176.4	96.7	74.3
Close of Year	165.5	164.7	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1956	1955	1953	1951	1945	1941
High of Year	166.7	173.6	166.5	214.5	106.4	84.6
Low of Year	149.8	150.7	153.8	174.8	93.9	55.5
Close of Year	162.7	153.1	166.8	189.4	105.9	84.1



Keeping Abreast of Corporate Developments

Tight money is proving no deterrent to the more enterprising corporate entities of American industry. Many are planning to dig into their cash boxes or resort to new financing, even if it does cost a little more in interest rates, to provide the wherewithal for new plants, increasing productive capacity or for the modernization and improvement of plants in order to raise output and increase operating efficiency.

Westinghouse Electric Corp., which had expended approximately $50 million in each of the last two years on capital improvements and new facilities, expects to spend $75 million more this year on its modernization and improvement program. At the present time, the company is not anticipating floating any new securities, expecting that planned capital expenditures will be taken care of out of retained earnings and internally generated funds.

Westinghouse, afflicted by a company-wide strike, virtually paralyzing operations from October 17, 1955 to March 21, 1956, ended the latter year with earnings estimated at $3,492,000, or 10 cents per common share. Reported earnings were also reduced in 1956 by adoption of the LIFO (Last In-First Out) tax accounting method for computing inventory value. Had the company not adopted this method, last year's net would have been approximately $15.5 million or 82 cents a share, notwithstanding the effects of almost complete first quarter loss of production and the additional time consumed in getting operations back to normal. As of last November 30, the company's unfilled order backlog of general industrial products was up 55% from the December 31, 1954 level while the order backlog of steam turbines, generators and other heavy electrical apparatus had increased 86%. In the same period the atomic-power backlog increased 213%.

American Broadcasting-Paramount Theatres. Color television will spotlight company's $11 million reconstruction and expansion program. Remodeled plant of broadcasting division is to have capacity 3½ times larger than at present. Initial demolition is to remove several outmoded studios and stages. Soon to be constructed are two sound stages equipped for compatible color telecasting, a technical control center and administration building, costing perhaps $5 million. Company's ABC-TV Network has arranged to film some of its TV shows at Warner Bros., which also produces shows for the network. A $60 million loan recently was negotiated by company with several financial institutions. Loan matures serially to January 1, 1978.

Douglas Aircraft Co. More than $4 million is to be spent during 1957 for construction of test facilities at company's 1,715-acre missile-test site near Sacramento. Facilities are to be used for development work on the Thor intermediate-range ballistic missile. Company is to spend about $3 million of its own money, in addition to $1.3 million received in an Air Force contract.

Murphy Corp. plans to double capital expenditures from $9 million in fiscal 1956 (ended November 30) to $18 million for fiscal 1957. Program includes oil and gas exploration and development in United States, Canada and Venezuela, along with other activities.

National Lead Co. Niagara Falls plant of titanium alloy manufacturing division is undergoing a major expansion of its manufacturing facilities. Project is scheduled for completion by July 1, 1957. Company said expansion is necessary to meet demands for zirconium silicates and zirconium oxide. A new building is to house new mills, pulverizers, mixers, dryers and tanks with necessary handling equipment. Also being expanded is titanium pigment plant in St. Louis. Common share earnings for nine months to September 30, 1956, were $3.49, as against $2.86 for comparable period year earlier.

Singer Manufacturing Co. Report is that company has plans for construction of a plant in Australia to produce electric machines for that commonwealth and New Zealand, and possibly for export to Asian markets. The plant would be the first wholly-owned production unit of company in that area.

Transcontinental Gas Pipe Line. plans to spend $110 million this year, compared to $30 million last year, according to Tom P. Walker, president. It

(Please turn to page 663)

Labor Leaders' Uneconomic Demands

(*Continued from page* 631)

stockholders to spend for the ten thousand and one products of labor. The loss is then shared by labor and investor alike.

In its seeming insatiable appetite for more and more wages, regardless of lagging productivity increases, organized labor has gone to unreasonable lengths in enforcing those demands. Such enforcement has worked to the detriment of workers, contributed to inflation.

Westinghouse Strike

An outstanding example might be cited in last year's 156-day Westinghouse strike. Payroll losses to individual workers ran close to $100 million; production loss to Westinghouse stood close to $300 million. It is estimated that wage gains will need nine years to offset wages lost on the picket lines.

In the meantime, Westinghouse lost portions of its domestic and foreign markets some of which will never be regained. The absence of Westinghouse production left a vacuum in their specialties which was not fully filled by competitors, thus creating shortages. Shortages created a seller's market, thus forcing prices upward, further nicking the purchasing power of the dollar, be it labor's or management's. In short, the Westinghouse strike moved the inflation spiral upward.

As for the lost foreign markets, other manufacturers lost some too. Not because of the Westinghouse strike, but because labor costs were pricing us out of foreign markets, notably Latin America where West Germany is selling more and more electrical appliances—products which make jobs for American workers.

Stanley H. Ruttenberg, Director of the AFL-CIO Research Department, has said that more than 3,000,000 American workers depend on exports for their jobs. If inflationary wage demands of organized labor drive our products from foreign markets, then organized labor along with the rest of the taxpayers will have the burden of maintaining the 3,000,000 persons now dependent upon exports for their daily sustenance.

Except for shipments of coal, oil and steel, American export trade has been almost static for the past few years. Export trade has not fallen behind in any specific line, but annual percentagewise increases have not kept pace with domestic sales. In fact, the increases become less each year, indicating they may soon cease, and be followed by annual declines. Such declines must increase unemployment here.

Shift to Foreign Shores

In the past decade many American firms, harrassed by labor costs which outrun productivity increases, have built production facilities abroad. These overseas facilities give American manufacturers an opportunity to compete with foreign manufacturers in foreign markets. This, however, contributes nothing to employment in this country. Further, many American firms with overseas facilities are finding it profitable to pay ocean freight and import duties to market their wares here.

This has been especially true with respect to automobiles. The small European type car has not yet "caught on" here to an extent threatening to domestic automobile industry. However, imports steadily mount. And it must be borne in mind that each imported car means one less sale for domestic auto builders. It would not be wise to toss the imported small car aside with the thought that when, as, and if, Americans want small cars, "Detroit will build them."

Assume the small car demand becomes great (and it is a growing demand) it would take many months for the automobile industry to re-tool to meet the demand. Re-tooling would mean enforced idleness for tens of thousands of production and assembly line workers. With retooling complete, the demand for production and assembly line workers would decrease by many thousands. The small car could be built with fewer hands, could be turned out in less time.

Thus far there has been treatment of Labor's direct needs to curb inflation, with citation of examples of what labor does to its own disadvantage when it "contributes" to inflation with ever-mounting wage demands. Now it is well to point up a basic root of the inflationary tendency—the institution of industry-wide labor unions, headed by leaders with power to bring about industry-wide strikes.

Competition Among Unions

Leaders of these unions, always seeking to outdo one another in raising employment costs in their respective industries, are rarely economists. They operate within a social framework where their achievements are measured by dollars in weekly pay envelope, never by the purchasing power of those dollars. At this time, the industrial worker's net take-home pay is at an all-time high. His wage boosts have mounted far faster than either his productivity or his cost of living.

(*Please turn to page* 658)

Collective Bargaining Timetable—1957 Highlights

Contract Expires	Company or Industry Assn.	Union	Employees
February	Goodyear Tire & Rubber	Rubber Workers	24,000
March	Owens-Illinois Glass	Glass Bottle Blowers	10,000
March	Atlantic Refining	Independent	11,000
March	B. F. Goodrich	Rubber Workers	15,000
March	Lockheed Aircraft, Georgia Div.	Machinists	16,400
April	U. S. Rubber	Rubber Workers	35,000
May	Clothing Mfrs. Assn. of U.S.A.	Clothing Workers	150,000
May	Southern Bell	Communications Workers	54,000
May	Montgomery Ward	Teamsters	15,000
June	Sinclair Oil	Oil Workers	10,000
June	Bell Tel. of Penn.	Bro. Electrical Workers	14,400
December	Massachusetts Shoe Mfrs.	Shoe Workers	12,000
*	Bituminous	Mine Workers	200,000

*—Contract expires on 60-day notice after Sept. 1957.


BUSINESS
CONFERENCE
The never-ending search for oil takes men to strange places—even to ocean floors.
Here Mobil scientists, the first company team of research geologists trained as skin divers, probe the bottom of the Gulf of Mexico.
From their findings have come clues which may lead to the location of new oil reserves to strengthen the Free World—to guarantee you a continuous and abundant flow of the thousands of products made from petroleum to enrich your life.
Training geologists as skin divers is but one of Mobil's pioneering methods of exploring new petroleum frontiers in a world where oil is ever more difficult and expensive to find.
This progressive policy resulted in the first tapping of off-shore oil reserves out of sight of land—another example of Mobil's master touch in oil.
For more information about skin diving for oil, write to Room 2400, Socony Mobil Oil Co. Inc., 150 East 42nd Street, New York 17, N. Y.
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Leader in lubrication
for 91 years

Labor Leaders' Uneconomic Demands

(*Continued from page* 656)

His gains over the past decade or so have not, however, gone sufficiently into the more substantial things of life—a home, increased insurance or savings accounts. Rather, the increase has flowed into channels for purchases of the ephemeral things—entertainment, more expensive diet and consumer goods of negligible durability. In brief, too much of wage boosts have gone into channels that cause mounting inflationary pressures.

There is no purpose in challenging the intelligence of the industrial worker, but economists' observation in many years of contact with such workers leads to the conclusion that most wage hikes are measured in terms of more money to spend Saturday night; seldom in terms of more insurance, savings bonds, building and loan shares, or the purchase of a home. Of course, this is not 100 percent true, but it applies all to often to the average worker's view of a pay boost.

Reverting a moment to the industry-wide unions which exercise monopoly control over the labor supply of an industry: When these unions demand wage increases which discount productivity gains far in advance, price reductions of mass-produced products become impossible. Buying power is unfairly shifted from the public as a whole to a favored few who happen to work in that particular industry.

Harm of Union Monopoly

Monopoly power of the unions distributes economic rewards among those under the canopy of the monopoly, to the harm of all other economic interests. In the situation existing today, where monopoly power over the labor supply is a fact in a majority of the nation's basic industries—manufacturing, communications, mining, transportation—the threat of growing inflation remains constant.

Leaders of these vast unions make it a practice to set fixed terms, with little or no regard for local conditions or the competitive position of an individual employer. The employers must submit or face long, costly strikes—costly to the national economy, to individual communities, to employers and to stockholders.

Higher Government Costs Mean Static or Increased Taxes

The Federal Budget while technically in balance, will show a small surplus, *provided* revenues continue at the present rate. A series of wage demands by labor, remembering Government is today's biggest buyer, can shift the Budget balance from black to red ink with resultant currency inflation, further devaluation of the dollar and consequent wiping out of wage gains—in short, intensifying inflation.

Basically, labor is the largest cost of production. The manufacturer who pays out 29 cents of each incoming dollar for wages, is also paying the 29 cents wages of the supplier of raw materials who adds labor cost for those raw materials. *Ergo,* excessive wage demands by organized labor clearly are the most serious inflationary threat today.

In reminding labor leaders to heed the President's warning against unreasonable wage demands, one might paraphrase a verse from Scripture and ask:

What profiteth it a man to gain an excessive wage increase if thereby he ruin the value of his dollar? —END

Paper Shares Past Their Crest

(*Continued from page* 642)

continue to make an excellent showing, although operations will not be at the capacity level of 1956. In this country, newsprint output is expected to total around 1.85 million tons, compared with 1.7 million tons in 1956. This would represent nearly 98 per cent of today's capacity. The bulk of the newsprint capacity, of course, is represented by the Canadian producers, and this group, having recently raised prices, should have another year as good as 1956.

In building paper and board, the dip in housing starts, probably to around 1 million units this year, will prevent growth in these products. But the construction of larger homes should mean that total production should be fully equal to last year's 3.1 million tons. Output of building paper and board will be around 84 per cent of capacity.

Excluding paperboard, newsprint and building paper and board, production this year of all other kinds of paper should be around 12.4 million tons, roughly equal to the total produced last year.

For the industry as a whole, capacity will be around 35 million tons this year, or around 2.3 million tons more than indicated consumption.

Such an excess of capacity over production and consumption should not create grave problems. The important thing, when such a period of overcapacity develops in an industry is to avoid a ruinous price war and to recapture at least part of any new rise in labor costs, even when operations are at lower-than capacity levels.

Price Wars Unlikely

In paper, fortunately, the business has moved into strong hands in recent years and price wars are likely to be avoided. Companies like St. Regis, Crown Zellerbach, Union Bag-Camp and others have been proceeding towards more complete integration, by buying up properties of non-integrated converters. This means, for example, that St. Regis has bought markets for its paper, through acquisition of such companies as Growers' Container Corp., General Container Corp., and Pollock Paper Corp. It has been sounder for St. Regis to do this than to create brand new capacity in its own plants for paperboard containers, waxed paper, etc.

The entrance of large units into every phase of paper converting should have a wholesome influence on competitive practices, and should help to avoid destructive price cutting, such as has decimated profit margins in basic commodities when production has leaped ahead of demand in the past. It is noteworthy that in the brief recession of 1954, general price cutting was avoided in the paper lines.

At the same time, there is enough competition in the picture to act as a damper on excessive price rises. Crown Zellerbach, for example, long a Western Coast

(*Please turn to page* 660)

Statistical Data on Leading Movie Companies

	Operating Revenue FY 1956 (Millions)	Operating Revenue FY 1955 (Millions)	Net Per Share FY 1956	Net Per Share FY 1955	Dividend Per Share 1956	Dividend Per Share 1955	Price Range 1955-56	Recent Price	Div. Yield
Columbia Pictures	91.1	88.3	$2.22	$5.64	$1.20	$ .90[a]	26¾-17⅛	17⅝	6.8%
Loew's Inc.	172.4	171.0	.91	1.03	1.00	1.00	25⅛-18⅛	20⅝	4.8
Paramount Pictures	na	112.5	3.37[n]	4.49	2.00	2.00	36½-27⅝	30⅝	6.5
Republic Pictures	na	39.6	.32[n]	.27	5% stk.	5% stk.	8⅞- 5	6½	....
Twentieth-Century Fox	56.8[s]	119.9	.80[s]	2.28	1.60	1.60	29¼-21⅛	24⅝	6.5
Universal Pictures	77.6	77.5	4.06	3.71	1.25	1.25	29¾-23¼	25	5.0
Warner Bros. Pictures	76.7	75.7	.85[1]	1.62	1.20	1.20	29¼-18½	25¾	4.7

1—Before profit on sale of old films, $6.16 per share.
a—Adjusted for stock dividends and splits.
n—Nine months.
s—Six months.
na—Not available.
FY—Fiscal year.

Movie Industry at the Crossroads

(*Continued from page 633*)

helped by lifting the exemption in admission taxes to 90 cents from 50 cents. With the higher minimum in effect since September 1, many theatre chains have been able to increase their take by maintaining admission prices at levels previously prevailing with tax included. Thus on tickets selling at 90 cents or less the theatres have been able to boost revenues.

Prospect of higher income from new releases (based on box office receipts) as well as from payments on telecasting of pre-1948 films, suggest that the top studios should fare better in 1957. Twentieth Century-Fox is counting on improvement in gross revenues and profits. Strengthening of Loew's management team points to a resurgence in the well known MGM organization. What the future holds remains to be seen, but unless definite gains are achieved this year some drastic revisions may come. —END

Paper Shares Past Their Crest

(*Continued from page 658*)

producer, is moving into the Middle West, following its acquisition of Gaylord Container. St. Regis has been strengthening its position on the West Coast through its Nells Lumber acquisition, and through other deals. Continental Can has acquired Robert Gair and American Can is now planning to enter the paperboard container field, to diversify its operations. These moves and countermoves mean competition, but it will be sound competition, if we can gauge the future from the past policies of these corporations.

Conservative Leadership Helps

An illustration of the conservative leadership of the industry's executives is provided by the warning issued last year by J. D. Zellerbach, President of Crown Zellerbach, who last Summer called attention to the danger of overproduction arising from ex-

cessively rapid expansion. This warning has been followed by the abandonment of plans for a number of new paper plants, and by a drop in paper output.

While the industry is continuing to add to its capacity, its capital investment program has not gotten out of hand.

Tight Money Influences

Tight money has undoubtedly played an important part in cancelling out some projects that were not needed. But even more important was the industry's realization that capacity, by mid-1956, had already caught up with the demand, and that further boosts in capacity were only warranted as the market for paper expanded.

For the longer term, it appears that demand should catch up to present paper capacity of 35 million tons by 1959, if not sooner. It is interesting to note that projections concerning pulp demand for 1960, made by industry economists in 1954, have been already achieved.

Business Trends Will Affect Outlook

Such projections, of course are less likely to be accurate than short range forecasts. Even the forecast for 1957 by industry economists of an output of 32.5 to 33 million tons is predicated on the maintenance of present levels of national production and consumer disposable incomes. If a recession were to get under way, like the 1954-55 dip in gross national product, paper output would undoubtedly sustain a setback, since the industry has not demonstrated ability to resist a general recession. The industry is dependent on a high level of consumer disposable income. Steady growth of the latter in recent years has conferred more stability on the paper industry than it displayed prior to World War II.

In summarizing the situation for the industry as a whole, it appears that during the first half of 1956, paper production was running at the level of 32 million tons a year, a gain of 12 per cent over 1955.

The peak rates of early 1956 reflected failure of the industry to realize in 1952 and 1953 how fast it would grow. It takes two or three years to install a paper machine. Hence, when the paper demand began to move up rapidly in 1954 and 1955, the industry had to be placed on a capacity and overcapacity basis to meet that demand, part of which originated from inventory accumulation. This meant exceptionally favorable operating results and a high percentage rate of profits on sales in the latter part of 1955 and the first half of 1956.

Unfortunately, the stock market elected to capitalize paper stocks on the basis of the unusually good results in the first half of last year, overlooking some non-recurring factors. This magazine called attention to the rapid pace of the rise in paper stocks, in its issue of last April 28.

Now, paper securities are substantially lower. In addition, some of the unsound factors in the situation of a year ago such as excessive inventory building and unwise expansion have been eliminated. It is too much to expect another round of dividend rises in paper stocks this year, such as took place last year. But at the present time, dividends are well covered by earnings of most companies and yields on balance are higher than a year ago.

If paper companies can weather a temporary dip in their operating rate to about 90 per cent of capacity over the next year, and can maintain a firm price structure, they will come out of this period with enhanced attractiveness as investments.

They will have demonstrated that they have grown beyond their prewar stage, when paper was regarded as a feast or famine industry. END

Liquor Companies Stepping Out?

(*Continued from page* 644)

For its fiscal year ended last April 30, net sales from all activities were put at $77.7 million. After deducting federal excise taxes this sum was reduced to just under $35 million from which it realized net income, after preferred dividends, equal to $2.79 a common share. If non-recurring income of $1,285,026 in the form of a federal tax refund as a result of a favorable court decision is added, net for the common stock amounted to $4.25 a common share. For the first six months of that fiscal year net income from operations was equal to $1.19 a common share. This showing was not matched in the first six months of fiscal 1957, ending next April 30. Net for the half year dropped to $1.00 a share because of production difficulties complicated by delayed shipments of decanters in which Brown-Forman's "Old Forester" was bottled for the Christmas trade.

Distillers Corporation-Seagrams' earnings were in a moderate downtrend over the last three years, sliding off from $4.09 a share for the year ending July 31, 1954 to $2.63 for fiscal 1956. There are some signs of a comeback, however, based on results for the three months to the close of October, 1956. In that quarter, earnings rose by 15.8% above the level of a year ago, net for the latest period being equal to $1.27 a share, compared with $1.09 in the Oct. 31, 1955 quarter. Although one quarter's results do not offer a broad enough base on which to gauge profit for the balance of the year, it is probable that the better showing reflects further benefits for Distillers from the introduction a little more than a year ago of straight whiskies to take advantage of shifts in consumer preference for this type of product over the once popular blends. Meanwhile, the company continues to push its oil and gas operations, in which, at the end of fiscal 1956, it had investments of approximately $21.8 million.

National Distillers Products has long been a leader in the production of bottled-in-bond whiskies bearing famous brand names, as well as 86-proof straight whiskies. The company added vodka to its line last year and also became the sole importer and distributor of a popular Scotch whisky. National Distillers long ago went afield to achieve diversification. In the past seven years it cultivated development and growth of its Chemical Division as well as a subsidiary, National Petro-Chemicals Corp., 60% owned by National and 40% by Panhandle Eastern Pipe Line Co. A more recent development in National's activities has been the formation, jointly with the Mallory-Sharon Titanium Corp., of Reactive Metals, Inc., to initially engage in the melting of zirconium and its alloys, and the manufacture of certain zirconium mill products.

In its preliminary report for the year ended December 31, 1956, National Distillers showed net sales for the year totaling $543 million, a gain of approximately $42.9 million over 1955, with net income rising to $2.11 a share for the common stock from $1.60 a share in the preceding year.

Schenley Industries completed its 1956 fiscal year last August 31, reporting net income of $8.4 million, equal, after preferred dividends, to $1.93 a common share. This represented a 38% increase over 1955's net income of $6.1 million, equal to $1.40 a share for the common stock. Schenley, which broadened its position in the industry within the past year or so by acquiring Park & Tilford and a substantial majority interest in Dubonnet Wine Corp., has now acquired a controlling interest in several British firms of distillers and wine merchants, including Seager, Evens & Co., Ltd. At the same time it expanded operations by its entry into world trade with Scotch, Canadian and American whiskies and gin.

Hiram Walker-Gooderham & Worts which reported $7.30 a share on its capital stock for the fiscal year ending August 31, 1956, compared with $6.70 a share in the previous year, maintained this earnings uptrend in the first quarter through November 30, last. Net income for that three months' period increased to $2.85 a share from $2.44 for the corre-

sponding quarter of a year earlier. In reporting the current fiscal year first quarter earnings, the company points out that the increase reflects the success of the Canadian Club Gift Wrap program undertaken at Walkerville, for Canadian and U. S. markets. Continuing its program of plant expansion and major improvements, which in the decade to the end of last year involved expenditures of $30 million, the company put into operation last October a new milling-fermenting-distilling unit, doubling Walkerville plant capacity. A new 123,000 barrel rackhouse at Peoria which is already in partial use will be completed some time this coming summer. This addition will enlarge space at Peoria for aging whiskey, to 252,000 barrels.

To sum up, the liquor companies have shown evidences of stepping out with more imaginative merchandising, higher prices, and wider diversification of lines and outside activities. These have helped to expand sales and earnings in recent months. On the other hand, the industry faces the problem of selling increased supplies of aged whiskey under the force-out provision of the tax law. END

Keeping Abreast of Corporate Developments

(*Continued from page* 655)

was stated that funds for the program probably would come from retained earnings and sale of preferred stock and long-term obligations.

Chesapeake & Ohio Railway expects to make capital expenditures of $125 million in 1957, against $90 million last year. Freight cars are to account for $70 million of the 1957 total. Company has announced plans to start building, in the last half of 1957, 150 convertible road-rail freight haulers, known as the railvan. Common share earnings were up from $7.25 for 1955 to $8.28 last year. Total operating revenue rose from $380 million in 1955 to $419 million in 1956. At close of 1956 company issued $4.2 million of $4\frac{1}{8}$% equipment trust certificates, which mature annually to October 23, 1971. END

Year-End Corporate Statements

(*Continued from page* 628)

opening up of new plants, which will be producing chemicals for which a good demand is foreseen during 1957. It is likely that first and second quarter earnings will reflect special non-recurring charges, so that the 1957 outlook should be quiet for the short term but potentially favorable for the long term. Sales of explosives for highway building should meet with satisfactory demand, and cellulosic product demand should increase space. Heavy cash demands are anticipated in conjunction with the continuing capital program.

Atlas Powder reported recently that 1956 sales were $67.1 million, or 11% higher than those in 1955. A small part of this increase was brought about by the acquisition of Aquaness Corp. last summer. Although final quarter 1956 earnings were less satisfactory compared with earlier quarters, margins improved during the year. Whether this favorable trend of increased sales and profit margins can continue during 1957 seems less than certain owing to the burgeoning costs of wages, materials, transportation, etc. Like Hercules, Atlas should tend to reflect some improvement from the approaching high rate of highway building, but sales of heavy chemicals appear less favorably situated owing to competitive pressures. On balance, one might look for a continuation of current sales levels and possibly some reduction for earnings.

Lower Copper Prices to Reduce Margins

The non-ferrous metal producers, such as Anaconda, American Smelting, Kennecott and Phelps-Dodge prospered during 1956 as a result of above-40¢ per pound prices for copper. It is common knowledge at the moment that copper supplies are entirely adequate, and, since few consumers of non-ferrous metals care to stockpile metals under these circumstances, the price structure has undergone weakness. In terms of the outlook for increased needs for conveying electrical energy, whether via heavy transmission lines, telephone wires or electronic components, it would appear that prices may remain stabilized at this 34-35¢ level, which woud actually permit a more balanced situation with respect to mining, scrap copper, refining and selling. The companies, especially the major ones, are undertaking large capital programs to improve sources of supply, decrease smelting-refining costs and find new uses for by-products. Other income from securities held by major companies, such as Anaconda and American Smelting, should prove to be a stabilizing force during 1957.

The report of *Kennecott* indicated that 1956 sales of $567 million were ahead of 1955 by about 3.5%. Margins increased from 45% to 50%, which was not an improvement in view of special charges for flood costs during 1955 of almost $12 million. The last half of 1956 was somewhat less favorable than the first half, and during the current quarters, one may expect little improvement owing to the adverse copper price situation. A period of normal readjustment is in order, after which one might expect improved sales and good margins to prove beneficial to earnings.

Manufacturers in Diverse Fields

The annual statement of sales and earnings for *Westinghouse Electric Corp.* revealed a minor increase in sales from $1,441 million to $1,525 million. Because of a variety of well-known factors, such as strikes, higher costs and contracts which apparently may not have been profitable from the start, net income was reduced from $43 million in 1955 to the token amount of $3.5 million in 1956. Quarter by quarter during 1956, sales increased by sizeable proportions, and the outlook for 1957 is for a continued gradual increase. Net income performed in much the same way, starting with a deficit of $1.14 per share in the first quarter and evolving into substantially better results later on. Because of the heavy demand for electric generators, turbines, transmission equipment, reactor components, elevators, escalators, motors and other similar goods, backlogs as of November 1956 were reported to be 86% higher than as of 23 months earlier. It would appear that sales and, possibly earnings, should show worthwhile improvement during the next few quarters.

According to Mr. T. J. Watson, *International Business Machines* "produced and sold more in 1956 than in any previous year". The sales of $734.3 million were, in fact, about 30% ahead of those recorded in 1955 and about 60% above those in 1954. Each 1956 quarter's sales and earnings displayed improvement over the preceding quarter, and the fourth quarter was significantly strong. Mr. Watson said that, "Unfilled orders at the year-end remained at a high level", and indications are that further improvement can be attained during the early 1957

quarters. Cash flow remains favorably high, and financing is being accommodated on relatively propitious terms. Because of the widespread needs for modern business machines, the outlook for sales and earnings in the office machine field is above-average.

Johns-Manville, a premier supplier of building accessories, reported that sales during 1956 were $310 million, about 9% better than in 1955. Costs rose faster, however, and net income increased but 6.5%. During the fourth quarter, sales tended to level off, and net income was below the average of the preceding two quarters. Although private building may be down in 1957, repairs, modernization and large building construction should continue to furnish a satisfactory demand for J-M products. The outlook for the first half of 1957 seems generally favorable.

Accent on Oil Reserves

An up-to-the-minute report on U. S. oil production reveals that 7,395,500 barrels were produced during the week ending February 2, 1957, contrasted with 6,994,300 for the corresponding week a year ago. Increased sales of petroleum abroad, present demands for fuel oil, and secular improvement for other oil products are placing more of a premium on petroleum reserves.

Shell Oil Co., two-thirds owned by Royal Dutch interests, has been making excellent progress on boosting its crude position. During 1956, some cut-backs in refinery production were encountered during the third and fourth quarter owing to a gasoline oversupply situation. Sales and net income in 1956 were moderately above 1955 totals, and the current outlook is auspicious. The first half sales and earnings during 1957 exceed those of the second half 1956.

Following a slowdown in gasoline refining in certain areas, *Atlantic Refining* closed the year 1956 with altogether satisfactory sales and earnings. With the addition of Houston Oil and other new producing properties, Atlantic has improved its producing position, and the year 1957 should experience a continuation of the high 1956 fourth quarter trend.

Sinclair Oil demonstrated a basic improvement in sales and earnings during 1956, although third quarter sales and net income were below the average for the balance of the year. The fourth quarter was especially rewarding, and the yearend earnings results were reported exclusive of $4.8 million derived from the sale of Western Hydrocarbon Co. Similar to other companies which were formerly purchasers of crude on balance, Sinclair is improving its reserve prospects, which permits a more favorable long range outlook.

Other Company Reports

Sales and earnings for *Liggett & Myers Tobacco Co.* increased during 1956, and the fourth quarter was especially strong, resulting from the Christmas gift season. The steady growth of tobacco use, interrupted by medical advice on the danger aspects, now seems to have resumed, so that the outlook for 1957 would appear to favor increased sales and earnings.

National Biscuit Company, a company reputed for its almost unerring year-by-year increase in sales, revealed an approximate 5.4% improvement from 1955 to 1956. Sales were $410.5 million vs. $389.6 million. Profit margins in each of the two years were nearly identical, so that net income increased in roughly the same proportion. The fourth quarter was better than the preceding three quarters, and it would appear that the first quarter sales of 1957 should exceed the average of the individual 1956 quarters. Modernization of plants, improved distribution facilities, and the introduction of new convenience foods should buttress 1957 sales and earnings in a propitious manner.

It would appear that the first and second quarter outlook for steel makers, oil producers, office equipment suppliers and certain building construction and equipment making companies is fairly well reinforced by satisfactory backlogs of orders. Thereafter, there seems to be a less serene attitude on the part of executives. Perhaps the executives, like investors, have become all too accustomed to continuous dynamic growth, and the "flattening out of the boom" may find a number of companies "running faster to remain in the same position."

—END

Varying Outlook For Individual Farm Equipments

(Continued from page 646)

plant producing agricultural chemicals, this development materialized at a time when the field had become rather crowded and economic conditions were less favorable than could have been wished. Nevertheless, management evidently contemplates extension of activities in an area which promises growth. A more aggressive policy has been adopted in exploiting the foreign market. As a result of acquisition of a controlling interest in a West German concern, Deere hopes to gain a larger share of the sterling business available to implement makers. Plans call for construction of a plant in Mexico and enlargement of sales in Central America next year.

Of the smaller units in the industry, *J. I. Case* represents one of the most promising, since this company has embarked upon a program of diversification which management hopes will lead to a resurgence in profits. The consolidation with American Tractor recently consummated is expected to strengthen management and to broaden distribution facilities. The merger provides a better rounded line of products and should enable the Case concern to make better use of manufacturing facilities, some of which had been idle or had been operated less effectively than could have been desired. Much still has to be done to gain the benefits of economies that can be envisioned, but general conditions should prove more favorable this year than in 1955 in assisting management in the program. More efficient manufacturing operations and aggressive sales efforts hold promise of bringing about the best earnings showing in several years.

Despite a heartening recovery in earnings in the final quarter of its fiscal year, *Oliver Corporation* (fourth largest implement manufacturer) had an unsatisfactory year in 1956. Net profit, equal to 76 cents a share, covered dividend requirements by a slim margin and raised doubts over management's ability to continue distributions at last year's rate unless considerable improvement can be accomplished in 1957. Sales volume fell rather sharply to the lowest level since 1950, due in part to a cutback in shipments on defense contracts. Gains in industrial product lines evidently went a long way toward keeping the company out of the red. Management is hopeful of capitalizing to a greater extent this year on sales of roadbuilding machinery and on enlarging volume in its Farquahar line of hydraulic presses. Volume production is contemplated this year in a line of outboard motors which should contribute to profits for the first time.

Rising labor costs and shrinking volume of sales exerted a powerful depressing influence on operations of *Minneapolis-Moline,* regarded as a marginal farm equipment maker, dependent almost entirely on agricultural equipment business. Keen competition and unsatisfactory acceptance of the company's products reduced volume almost 10 per cent. A change in accounting practices, together with a profit on the sale and lease-back of certain properties, enabled the company to show a modest net profit, but had it not been for the non-recurring capital gain there would have been a sizeable deficit. Moreover, if practices of earlier years had been followed, the deficit might have ranged above $5 million. More satisfactory operating conditions should be attained this year.

Although *F. E. Myers & Bro.* is ranked as a manufacturer of agricultural equipment, this designation stems primarily from the fact that its specialized products have been marketed largely in agricultural territories. The company really produces water systems and pumps, operated by power or manually, and power type sprayers as well as a line of hay and grain unloading equipment. Popularity of the company's pumps in many farming areas contributed to progress in sales last year. Net profit rose slightly to $5.27 a share for the best showing since 1950. Exploitation of non-farm markets is making progress. A new line of water-conditioning equipment, introduced a year ago, is expected to round out the company's line. Prospects are regarded as favorable for continued growth.

Leading
Allis-Chalmers[2]
W.C. (mil.) 12-31-55—$258.9
W.C. (mil.) 9-30-56—na
Case, (J. I.)[1]
W.C. (mil.) 10-31-55—$84.5
W.C. (mil.) 10-31-56—$84.9
Caterpillar Tractor[2]
W.C. (mil.) 12-31-55—$93.6
W.C. (mil.) 12-31-56—na
Deere & Co.[1]
W.C. (mil.) 10-31-55—$304.8
W.C. (mil.) 10-31-56—$298.8
Inter. Harvester[1]
W.C. (mil.) 10-31-55—$399.4
W.C. (mil.) 10-31-56—$425.1
Minneapolis-Moline[1]
W.C. (mil.) 10-31-55—$39.2
W.C. (mil.) 10-31-56—$40.8
Myers (F. E.) & Bro.[3]
W.C. (mil.) 9-30-55—$5.4
W.C. (mil.) 9-30-56—$5.9
Oliver Corp.[1]
W.C. (mil.) 10-31-55—$62.1
W.C. (mil.) 10-31-56—na

Mention of a change in accounting practices in connection with operations of *Minneapolis-Moline* calls attention to reasons for wide fluctuations in results at times. Most companies follow a practice of taking into sales reports all shipments to dealers regardless of whether such implements are paid for at the time. It is customary in the industry to permit dealers to carry inventories for some time and to return unsold merchandise. Accordingly, in years of poor sales, the volume of returned implements can be substantial. Losses on farmers' notes have been large at times, but failures on the part of customers to meet their obligations are less troublesome than a generation ago.

The trend toward consolidation has been less evident among farm equipment makers than might have been expected. Both Case and Minneapolis-Moline had been frequently mentioned as candidates. The former appears to have straightened out an unsatisfactory situation. The latter's man-

Farm Equipment Companies

Net Sales 1955 (Millions)	Net Sales 1956 (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1956 %	Net Per Share 1955	Net Per Share 1956	Dividend Per Share 1955	Dividend Per Share 1956	Price Range 1955-56	Recent Price	Div. Yield %
$535.1	$432.3^{n}	4.6	3.6^{n}	$6.05	$1.87^{n}	$2.00^{4}	$2.00^{4}	129½-88	92	2.2
94.8^{g}	87.1^{g}	1.0	....	.11	^{d}0.72	nil	nil	18½-11½	15⅛	—
523.9	548.6^{t}	6.6	7.9^{t}	4.04	4.77^{t}	1.60^{4}	1.95	96½-55½	92	2.1
339.6	313.6	8.3	6.4	3.91	2.67	1.75	1.75	34⅞-25⅜	28⅞	6.1
1,165.8	1,252.1	4.8	4.0	3.60	3.16	2.00	2.00	41⅝-33⅛	37⅜	5.4
72.3	66.2	.9	.8	.14	.16	nil	nil	24⅝-13¼	15¾	—
12.7	13.7	8.2	8.0	5.02	5.27	2.90	3.00	50 -42¾	46	6.5
133.6	107.9	3.6	1.8	2.13	.76	.80	.70	17⅜-11	12½	5.6

d—Deficit.
na—Not available.
g—Gross.

1—Fiscal year ends Oct. 31.
2—Fiscal year ends Dec. 31.
3—Fiscal year ends Sept. 30.

4—Adjusted for 2 for 1 split.
n—Nine months to Sept. 30.
t—Ten months to Oct. 31.

agement is reported to have been considering proposals, but nothing tangible seems to have developed. Some larger concerns also were reported to have studied Oliver as a potential merger candidate. Developments along this line may gain headway this year.
END

What Can We Expect—If 1957 Prosperity Depends on Defense Spending and Public Works?

(*Continued from page* 624)

housing starts. If neither of these booms eventuates, capacity in these supplying industries will unquestionably be found to be far above immediate need. This discovery has already been made in the lumber industry; it is being made now in steel and copper; the first evidence is now coming even in such a fabulous growth industry as aluminum.

If these basic supplying industries continue at capacity through the first half of 1957, inventories of these materials will by midyear be substantially in excess of requirements. Yet inventories are already growing at an insupportable rate of $5 billion a year (probably more than $8 billion a year in terms of book value, because of rising inventory prices).

Finally, this emergence of evidence that capacity is more than ample is coming at a time when business expansion plans are being increasingly questioned for a host of other reasons. Money is tight, and expensive. Corporate liquidity is strikingly low in a number of industries. Prices of capital goods and new industrial construction are getting higher and higher. The available statistical evidence on business spending for plant and equipment even now points to the probability of a plateau in these outlays in the next several months. Machinery orders are already declining; so are new contract awards for plant construction; and there is recent evidence that the rate of appropriation of new funds for capital programs began declining as far back as in the fall of 1956. All of this strongly suggests that the great capital goods boom of 1955-1956 is about to wane; it will wane that much faster if automobiles and residential building show no important improvement from current rates in the first half of 1957.

The Strengths in Government Demand

In calendar 1956, the combined spending of federal, state and local governments in the United States amounted to about $80 billion (this figure includes only spending for the purchase of goods and services; it excludes such "transfer payments" as social security benefits, veterans' benefits, unemployment compensation, etc.). Of this amount, federal spending accounted for about $47 billion, defense alone about $41 billion.

In 1957 all of these figures are likely to run materially higher.

The Defense Trend

Defense spending in 1957 will be perhaps $3 billion higher than

What Can We Expect— If 1957 Prosperity Depends on Defense Spending and Public Works?

(*Continued from page* 667)

in 1956. Part of this increase reflects simply the rising costs and expenses of the military establishment, owing to higher prices and personnel costs. These are the so-called "operations and maintenance" charges of the defense effort. But over and above them, the major and dynamic element of defense spending is the procurement of new or additional equipment, and this dynamic component is clearly on the rise.

There is a broad, overriding reason for the rise that has generally escaped public attention and needs stressing if the true course of defense is to be understood. For several years, the Eisenhower administration maintained a declining or stable level of defense spending by cutting back on outlays for conventional armament to offset the essential growth of outlays for the new guided-missile and long-range jet programs. These new programs for unconventional weapons are now calling for vastly increased spending; but spending for conventional weapons, associated with localized ground warfare, have already been reduced to a precarious minimum. *The opportunities for economies have been exhausted, while the vital needs for new programs continue; and the total defense curve now points ominously upward, perhaps for a long-term period to be measured only by the duration of the cold war.*

What is striking about the federal budget is that in the face of this obvious and inevitable uptrend in defense, no offsetting economies appear elsewhere in the budget. Public construction activity, either directly financed by the federal government or indirectly inspired by federal grants-in-aid to state and local governments, appear likely to add as much as $2 billion to total public construction volume in 1957 – enough to offset a sizable decline in private residential building. The federal road program alone will involve something between $1 and $2 billion; there is a school program in the works, and a power program. "Public works" – a term that has in the past come under some criticism from Republicans – are a major strength of business in 1957, in so far as the federal budget is concerned. And it is worth adding that fully one-third of all state and local government expenditures, which should total almost $35 billion in 1957, go toward construction of one kind or another (roads, schools, water and sewage facilities, etc.).

All of this points to a series of conclusions which businessmen and investors would do well to note carefully on their roadmaps for 1957. The galloping, exuberant private economy of 1955 began to disappear in 1956; it will not appear at all in 1957. In fact, by mid-year, private business will be facing the unpleasant prospect of declines in inventory demand and demand for capital goods, at the same time. And this conjuncture of weaknesses will come at a time when the automobile and housing markets will have been less than satisfactory for almost two years.

At the same time, government entities will be elevating their spending rates by perhaps $6 billion a year. In 1957, it is no accident that weakness in private business is being accompanied by strength in public demand; the two sectors are tied together inextricably in the federal budget. After all, lower government spending would presumably provide a much-needed tax reduction to swell the spending power of individuals, and improve the liquidity of corporations.

For the short term – the next

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twelve months – these conflicting trends now add up to no pronounced recession. But in those industries which do not directly supply the government, it may be a very unpleasant year indeed, with something very much like a business-cycle downturn striking by mid-year. For government suppliers, of course, this year should be better than 1956. This arbitrary and inequitable disparity in the outlook is one of the prices the nation pays for expanding government. END

Britain and Western Europe Act to Solve Problems

(*Continued from page* 639)

on the future of Europe.

In regard to the Common Market, there is no plan afoot to make Britain a full-fledged member of it. What is planned instead is a free trade area between the two. This would mean that Britain would continue to fix her own tariff levels for trade with the outside world but would gradually abolish all tariffs with the Common Market countries. This would make it possible for Britain to affiliate with the European project while at the same time maintaining her preferential tariffs with the Commonwealth.

What are the chances that Britain will take such a giant step towards the economic integration of Europe. Actually, they are excellent. Rarely before has there been so much enthusiasm and so little opposition in both parties on so vital an issue as in this case.

Behind the broad acceptance of the idea of a common market looms the stark reality of Britain's economic and political reverses. She is still the central banker of the vast sterling area, half the world's trading still is done in her currency and her influence still extends to the far-flung corners of the Commonwealth. But time is of the essence. The sharp decline in gold and dollar reserves following the Suez venture was due not to outflowing commercial payments but strictly to a loss of confidence in the sterling throughout the world which caused traders, speculators and even governments abroad to turn in their pound sterling for what they considered a safer currency. December, 1956 showed a slight increase in reserves (see table on page 639) but this was due entirely to the extraordinary drawing of $561 million from the International Monetary Fund. Otherwise, reserves would have crashed to a disastrous all-time low.

Confidence in sterling has now been restored but the flight during November, December and early January revealed a lack of trust in Britain's economic strength. Under these circumstances Britain's only salvation as a major power and as fountainhead of the empire lies in her ability to embark upon a new course which will regain her a key position in world trade. Association with the Common Market provides just such an opportunity. For it makes Britain the link between the vast raw materials-selling overseas countries and the European industrial centers which need the raw materials as well as the overseas markets for manufactured goods.

Britain And Euratom

In the field of atomic energy, Britain will not reap any immediate benefits by associating with Euratom since she is at present far ahead of the rest of Europe. Her Calder Hall plant is, in fact, the world's largest atomic power plant currently in production. According to projected plans, by 1975 some ten percent of Britain's *total* energy will be supplied by nuclear power. This is a multiple of the share atomic energy will have on the Continent in 1975. Nevertheless, there are some good reasons why Britain should – and probably will – join Euratom in some form. For one thing, British atomic development would be in danger of suffering from the distortions of small scale, unless expanded. For another, Britain has in the last few years established a real atomic energy equipment industry. Since the Continent has no such industry, Britain's affiliation with Euratom from the outset would make her the main supplier of atomic equipment for the regional organization. This would give her an important new export market. Finally, there is the political factor that if Britain stays out of Euratom, the organization will in all probability become dominated by Germany whose progress in nuclear science is more rapid than any other continental country.

There is still another reason why British leaders advocate an affiliation with Euratom, namely the manufacture of atomic missiles. At present these are made exclusively in the U.S. which supplies them to all other NATO countries. However, this fixes a degree of military dependence on the U.S. which is the very thing Europe is now trying to overcome. Since it would be far too expensive for either Britain or the continental countries to manufacture these new weapons alone the only solution is a combined project within the Euratom framework.

The Common Market, Euratom and the Free Trade Area are no panacea for Europe's economic and political difficulties. But they are likely to prove quite a surprise to those who have already written off Western Europe as a major actor on the stage of world affairs. END

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